

CISCO SYSTEMS, INC.

FORM 10-K (Annual Report)

Filed 09/25/98 for the Period Ending 07/25/98

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

CISCO SYSTEMS INC

FORM 10-K (Annual Report)

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

FORM 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the fiscal year ended July 25, 1998

Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California ----- (State or other jurisdiction of incorporation or organization)	77-0059951 ----- (IRS Employer Identification No.)
170 West Tasman Drive ----- San Jose, California (Address of principal executive offices)	----- 95134 (Zip Code)

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

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

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

Title of each class -----	Name of each exchange on which registered -----
Common Stock	Nasdaq National Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

As of September 23, 1998, the approximate aggregate market value of voting stock held by non-affiliates of the registrant was \$ 101,827,050,035 (based upon the closing price for shares of the Registrant's Common Stock as reported by the National Market System of the National Association of Securities Dealers Automated Quotation System on that date). Shares of Common Stock held by each officer, director, and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of September 23, 1998, 1,569,284,000 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Annual Report to Shareholders for fiscal year ended July 25, 1998 are incorporated by reference into Part I and Part II of this Annual Report on Form 10-K where indicated.

(2) Portions of the Registrant's Proxy Statement related to the 1998 Annual Meeting of Shareholders, to be held on November 12, 1998, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

The table of exhibits filed appears at page 26.

PART I

ITEM 1. BUSINESS

GENERAL

Certain Statements contained in this Annual Report on Form 10-K, including, without limitation, statements containing the words "believes", "anticipates", "estimates", "expects", and words of similar import, constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are referred to the "Financial Risk Management" and "Potential Volatility in Operating Results" sections, of Cisco Systems, Inc.'s 1998 Annual Report to Shareholders, which is incorporated herein by reference, as well as the "Acquisitions, Investments and Alliances", "Backlog", "Competition", "Research and Development", "Manufacturing", "Patents, Intellectual Property and Licensing", "Future Growth Subject to Risks" and "Other Risk Factors" sections contained herein, which identify important risk factors that could cause actual results to differ from those contained in the forward looking statements.

Cisco Systems, Inc. and its subsidiaries ("Cisco", or the "Company") is the worldwide leader in networking for the Internet. Cisco operates in one industry segment and creates hardware and software solutions that link computer networks so that people have easy access to information without regard to differences in time, place or type of computer system.

Networking is a multi-billion dollar global market whose growth is spurred by the belief that the Internet is changing the way we all work, live, play and learn. Over the last year, there has been a key shift in the role of the Internet and in how the Internet is perceived. What was once a fairly complex tool used by an elite group of highly technical individuals is now a technology driving economic change globally by creating new jobs and market opportunities.

The Company markets its products through its direct sales force, single and two-tier distributors, value-added resellers, service providers and system integrators. This multiple-channel approach allows customers to select the channel that addresses their specific needs and provides the Company with broad coverage of worldwide markets.

Cisco was incorporated in California in December 1984. The Company's executive offices are located at 170 West Tasman Drive, San Jose, California, 95134, and its telephone number at that location is (408) 526-4000. Cisco can also be reached by visiting its website at www.cisco.com.

END-TO-END INTERNET SOLUTIONS

Cisco's strategy is to provide end-to-end networking solutions to help our customers improve productivity and gain a competitive advantage in today's global economy. Cisco helps its customers build their own network infrastructure and gain access to their suppliers or vendors' networks. An end-to-end networking solution provides a common technical architecture that allows network services to be consistently provided to all users on the network.

Cisco's product portfolio offers a broad range of end-to-end networking solutions. Products are used individually or in combination to connect computing devices to networks, or computer networks with each other - whether they are within a building, across a campus or around the world. The Company's breadth of product offerings enables it to configure hardware and software features to meet each customer's unique requirements. Many of the Company's products are expandable, offering customers the option to upgrade their networks as their needs grow.

Cisco's product offerings fall into several categories:

Routing

Routing is a foundation technology for computer communications. Routers move information from one network to another, applying intelligence in the process to ensure that the information reaches its destination securely and in the fastest way possible. Cisco offers a broad range of routers, including the Cisco 12000 series, or Gigabit Switch Router (GSR), the Cisco 7500 series, the Cisco 4000 series and the Cisco 8500, 3600, 2600, 2500, 1000 and 700 product families.

Switching

Switching is another important networking technology that is used in both local-area networks (LANs) and wide-area networks (WANs). Cisco's switching strategy is designed to help users migrate from traditional shared LANs to fully switched networks by delivering products that support the varying levels of flexibility and cost-effectiveness required for today's desktop, workgroup, and backbone applications. Cisco's solutions in this area employ all widely used switching technologies -- Ethernet, Gigabit Ethernet, Token Ring and Asynchronous Transfer Mode (ATM). Cisco's LAN switching products include the Catalyst(TM) families, and Cisco's WAN switching products include the IGX, BPX, TGX and MGX families as well as the Cisco 3800 series.

Access

Today, people need to access their computers and communicate from the home, from remote locations and while traveling. Cisco's access solutions give groups and individuals who are remotely located similar levels of connectivity and information access as they would have if they were located at the company's head office. Asynchronous and ISDN remote-access routers, dial-up access servers, and DSL technologies provide telecommuters and mobile workers with Internet access and branch-office connectivity. The Company's access products include the AS5000 family of access servers; access routers such as the Cisco 6000, 4000, 3800, 3600, 2600, 2500, 1600, 1000 and 700 families, products, network security and management software.

SNA/LAN

Most large organizations have existing IBM computing systems that use the System Network Architecture (SNA) networking method, as well as LANs based on open network architectures (such as the TCP/IP protocol). Increasingly, network managers want to combine these two networks into a single network that leverages existing investments. Cisco provides a broad range of products and solutions for the IBM marketplace that maximize availability, scalability, performance, flexibility, and management. Much of this functionality is available through Cisco IOS software, which provides IBM networks with a clear migration path to the

future while protecting investments in existing equipment and applications.

Internet Services

Cisco offers end-to-end Internet services to improve a network manager's ability to cope with a number of challenges posed by the growing popularity of the Internet, such as network traffic volume and network address shortages. Cisco's Internet Service Units (ISUs) drive architectural consistency across the Company by focusing on standards-based services between clients and servers such as end-to-end quality of service and end-to-end security. Cisco's Internet Services products include: the PIX Firewall, which prevents unauthorized access to a network; NetSonar, which enables a secure network environment for Internet connectivity and commerce; NetRanger, which terminates unauthorized activity; Cisco LocalDirector, Cisco Cache Engine, and Cisco DistributedDirector, which balance the load between multiple servers to enable timely access and to eliminate redundant Internet content; and the Cisco Server Suite 1000, which consists of server applications with a graphical user interface (GUI).

Cisco IOS Software

Cisco Internetwork Operating System (Cisco IOS(TM)) is the common platform that ties all of Cisco's products together by delivering Internet services and enabling networked applications. Specifically, Cisco IOS software transforms a network into a strategic asset and a competitive advantage. Cisco IOS technologies include a wide variety of features that provide the intelligence of the Internet and private networks. The benefit of Cisco IOS is that it allows Cisco customers to build an infrastructure that facilitates network growth and the deployment of new applications, which in turn enhances reliability and interoperability, and lowers the cost of ownership.

The Cisco IOS software platform provides important network services and enables networked applications. Cisco IOS network services fall into two categories. Foundation Network Services are the building blocks of a robust network. They include connectivity, security, scalability, reliability and management. Enabling Network Services support the deployment of applications that take advantage of the underlying network. Enabling Network Services include such areas as multimedia, quality of service (a network management and optimization service) and voice.

Network Management

Cisco is extending its leading Internet business practices to its network management vision and products. For example, Cisco's Assured Network Services (ANS) is the company's vision and strategy for enterprise network management. This initiative combines the power of the Internet with access to Cisco's networking expertise to deliver enterprise-wide network availability, performance and security. ANS ties together all Cisco network management applications, online knowledge base and enterprise network infrastructure devices.

In order for service providers to profit from increasing new business opportunities, services must be carefully planned, quickly provisioned, efficiently operated, and accurately billed. The Cisco Service Management (CSM) system is a network service and delivery management system that delivers a modular suite of service management products

integrated within a common and scalable infrastructure. CSM enables service providers to effectively deploy, monitor, and manage these new network services, while potentially increasing revenue and reducing cost.

CUSTOMERS AND MARKETS

Networking needs are influenced by a number of factors, including the size of the organization, number and types of computer systems, geographic locations, and the applications requiring data communications. Cisco's customer base is not concentrated in any particular industry and in each of the past five fiscal years no single customer has accounted for 10 percent or more of the Company's net sales. For additional information regarding the Company's customers and markets see Note 11, "Geographic Information and Major Customers," on page 46 of the Company's 1998 Annual Report to Shareholders, which is incorporated by reference herein.

Cisco's market strategy addresses three main customer profiles:

Enterprise

Enterprise customers generally are large organizations with complex networking needs, usually spanning multiple locations and types of computer systems. Enterprise customers include corporations, government agencies, utilities and educational institutions.

Service Providers

These customers provide data communication services, including telecommunication carriers, Internet Service Providers, cable companies, and wireless communication providers.

Small/Medium Business

These customers have a need for data networks of their own, as well as connection to the Internet and/or to business partners. However, these customers generally have limited resources; therefore, the Company attempts to provide products which are affordable as well as easy to install and use.

Cisco Sales Overview

The Company's worldwide direct sales organization at September 18, 1998 consisted of approximately 5,000 individuals, including managers, sales representatives, and technical support personnel. The Company has approximately 105 field sales offices providing coverage throughout the United States.

Additionally, the Company's international sales are currently being made through multiple channels including approximately 108 international distributors and resellers throughout the world. These international distributors provide system installation, technical support, and follow-up services to end-customers. Generally, the Company's international distributors have nonexclusive, country-wide agreements. International sales through the various channels, including the Company's subsidiaries, accounted for approximately 40.9% of total sales in fiscal 1998, 43.5% in fiscal 1997, and 48.2% in fiscal 1996. Sales to international customers and distributors generally have been made in United States dollars. Since late fiscal

1997, substantially all European orders have been fulfilled through the European Operations Center (EOC).

The Company has sales support subsidiaries worldwide. New subsidiaries formed in fiscal 1998 include China, Croatia, Denmark, Finland, Hungary, Norway, Puerto Rico, Romania, Saudi Arabia and Slovakia.

ACQUISITIONS, INVESTMENTS AND ALLIANCES

The end-to-end strategy pursued by Cisco requires a wide variety of technologies, products and capabilities. Additionally, the pace of change in the industry is very rapid. The combination of complexity and rapid change make it difficult for one company, no matter how large, to develop all technological solutions alone. Acquisitions, investments and alliances are tools used by the Company to fill gaps in its offerings and enable it to deliver complete solutions to its customers and prospects in target markets.

Satisfying customers' networking needs requires a constant monitoring of market and technology trends, plus an ability to act quickly. Cisco has a four-part approach to satisfying the need for new or enhanced networking products and solutions. In order of preference, this approach is to: develop new technologies and products internally; enter into joint-development efforts with other companies; resell another company's product; and acquire all or part of another company.

Acquisitions involve numerous risks, which are more fully discussed in the "Future Growth Subject to Risks" section of this document.

Since 1993, the Company has acquired a number of companies. The Company expects to make future acquisitions where it believes that it can acquire new products and channels of distribution or otherwise rapidly enter new or emerging markets. Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that the Company's previous or future acquisitions will be successful and will not adversely affect the Company's financial condition or results of operations.

Each of the Company's acquisitions has furthered the Company's commitment to providing an end-to-end solution. The Company now has a broad set of product offerings and technologies, which include Ethernet, Gigabit Ethernet, Token Ring, Asynchronous Transfer Mode (ATM) switching, Synchronous Optical Network/Synchronous Digit Hierarchy (SONET/SDH), Digital Subscriber Line (xDSL), Dial, converged data, voice and video technologies, network security and also network management software solutions, among others.

Minority Investments

The Company makes minority investments in companies whose technologies or expertise appear strategic to Cisco's interests and merit monitoring, but where there is not yet a compelling need to have those capabilities in house.

Strategic Alliances

Cisco pursues strategic alliances with other industry leaders in areas where collaboration can produce mutual benefits. The motivation for a strategic alliance can include: technology exchange, product development, joint marketing and sales, and new-market creation. This

year, Cisco expanded its relationships with Microsoft, Hewlett-Packard, EDS, and Sprint and created new alliances with KPMG, PeopleSoft, and INS. We also extended our business alliances with Fujitsu and Japan Telecom, while announcing strategic relationships with US West and NTT, among others.

BACKLOG

The Company's backlog on September 19, 1998 was approximately \$693 million compared with an approximate backlog of \$443 million at September 20, 1997. The Company includes in its backlog only orders confirmed with a purchase order for products to be shipped within 120 days to customers with approved credit status. Because of the generally short cycle between order and shipment, and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), the Company does not believe that its backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.

COMPETITION

Cisco competes in the telecommunications equipment market, providing solutions for transporting data, voice and video traffic across intranets, extranets, and the Internet. The market is characterized by rapid growth, converging technologies, and a conversion to new solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to Cisco. The Company competes with numerous vendors in each product category. Cisco expects that the overall number of competitors providing niche product solutions will increase due to the market's attractive growth. On the other hand, the Company expects the number of vendors supplying end-to-end telecommunications solutions will decrease, due to the rapid pace of acquisitions in the industry. Ultimately the Company believes only a few large suppliers of end-to-end telecommunication equipment solutions will become its primary competitors.

Cisco's competitors include Lucent, Nortel, Ericsson, 3Com, Ascend, Cabletron, Fore and IBM. Some of the Company's competitors compete across many of Cisco's product lines, while others do not offer as wide a breadth of solutions. Several of the Company's current and potential competitors have greater financial, marketing and technical resources than the Company.

The principal competitive factors in the markets in which the Company presently competes and may compete in the future are: price; performance; the ability to provide end-to-end solutions and support; conformance to standards; the ability to provide added value features such as security, reliability, and investment protection; and market presence.

The Company also faces competition from customers it licenses technology to and suppliers from whom it transfers technology. Networking's inherent nature requires interoperability. As such, the Company must cooperate, and at the same time compete, with these companies. The Company's inability to effectively manage these complicated relationships with customers and suppliers could have a material adverse effect on the Company's business, operating results, and financial condition.

RESEARCH AND DEVELOPMENT

The Company is engaged in research and development efforts to develop customer solutions for each of its three primary lines of business: Enterprise, Service Provider, and Small/Medium Business. The Company focuses its product development activities on networking products that are responsive to customer requirements and that provide end-to-end networking solutions. The Company's research and development investments are made either internally or through acquisition, and in addition, the Company makes minority equity investments in early stage technology development entities.

The Company has recently announced several new products, including the Cisco 8500 family of multiservice routers, and the Company's 6400 Universal Access Concentrator, which provides value-added DSL services. However, the industry in which Cisco competes is subject to rapid technological developments, evolving industry standards, changes in customer requirements and frequent new product introductions and enhancements. As a result, the Company's success, in part, depends upon its ability, on a cost-effective and timely basis, to continue to enhance its existing solutions and to develop and introduce new solutions that improve performance and reduce total cost of ownership. In order to achieve these objectives, the Company's management and engineering personnel work closely with customers, to identify and respond to customer needs, as well as with other innovators of internetworking products, including universities, laboratories, and corporations. The Company will also continue to make strategic acquisitions and equity investments where appropriate. The Company intends to remain dedicated to industry standards and to continue to support important protocol standards as they emerge. Still, there can be no assurance that Cisco will be able to successfully develop new products to address new customer requirements and technological changes, or that such products will achieve market acceptance.

In fiscal 1998, 1997, and 1996, the Company's research and development expenditures were approximately \$1,020 million, \$698 million, and \$399 million, respectively. All of the Company's expenditures for research and development costs, and purchased in process research and development of approximately \$594 million in fiscal 1998 and \$508 million in fiscal 1997, have been expensed as incurred.

MANUFACTURING

The Company's manufacturing operations consist primarily of quality assurance of materials, components and subassemblies. Additionally, the Company performs final assembly and test. The Company presently uses a variety of independent third-party companies to perform printed circuit board assembly, in circuit test, and product repair. The Company and its single enterprise partners install proprietary software on electronically programmable memory chips installed in its systems in order to configure products to customer needs and to maintain quality control and security. The manufacturing process enables the Company to configure the hardware and software in unique combinations to meet a wide variety of individual customer requirements. The Company and its single enterprise partners also use automated testing equipment and "burn-in" procedures, as well as comprehensive inspection, testing, and statistical process control, to assure the quality and reliability of its products. The Company's and its partners' manufacturing processes and procedures are ISO 9001 certified. To date, the Company has not experienced significant customer returns of its products.

PATENTS, INTELLECTUAL PROPERTY AND LICENSING

Cisco's success is dependent upon its proprietary technology. Cisco generally relies upon patents, copyrights, trademarks and trade secret laws to establish and maintain its proprietary rights in its technology and products. Cisco has a program to file applications for and obtain patents in the United States and in selected foreign countries where a potential market for Cisco's products exists. Cisco has been issued a number of patents; other patent applications are currently pending. There can be no assurance that any of these patents will not be challenged, invalidated or circumvented, or that any rights granted thereunder will provide competitive advantages to Cisco. In addition, there can be no assurance that patents will be issued from pending applications, or that claims allowed on any future patents will be sufficiently broad to protect Cisco's technology. In addition, the laws of some foreign countries may not permit the protection of Cisco's proprietary rights to the same extent as do the laws of the United States. Although Cisco believes the protection afforded by its patents, patent applications, copyrights and trademarks has value, the rapidly changing technology in the networking industry makes Cisco's future success dependent primarily on the innovative skills, technological expertise and management abilities of its employees rather than on patent, copyright and trademark protection.

Many of Cisco's products are designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of its products, Cisco believes that based upon past experience and standard industry practice, such licenses generally could be obtained on commercially reasonable terms. Because of the existence of a large number of patents in the networking field and the rapid rate of issuance of new patents, it is not economically practical to determine in advance whether a product or any of its components infringe patent rights of others. From time to time, Cisco receives notices from or is sued by third parties regarding patent claims. If infringement is alleged, Cisco believes that, based upon industry practice, any necessary license or rights under such patents may be obtained on terms that would not have a material adverse effect on Cisco's business, operating results and financial condition. Nevertheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all, or that Cisco would prevail in any such challenge. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation could have a material adverse effect on Cisco's business, operating results and financial condition.

FUTURE GROWTH SUBJECT TO RISKS

The Company's business and stock is subject to a number of risks. Some of those risks are described above and certain additional risks are set forth below. Other risks are presented in the "Financial Risk Management" and "Potential Volatility in Operating Results" sections on pages 23-27 of the Company's Annual Report to Shareholders for the year ended July 25, 1998, which is incorporated herein by reference.

Acquisitions

The networking business is highly competitive, and as such, the Company's growth is dependent upon market growth and its ability to enhance its existing products and introduce new products on a timely basis. One of the ways the Company has addressed and will continue to address the need to develop new products is through acquisitions of other companies. Acquisitions involve numerous risks, including difficulties in integration of the operations, technologies, and products of the acquired companies; the risk of diverting management attention from normal daily operations of the business; risks of entering markets in which the Company has no or limited direct prior experience and where competitors in such markets have stronger market positions; and the potential loss of key employees of the acquired company. The Company must also maintain its ability to manage any such growth effectively. Failure to manage growth effectively and successfully integrate acquisitions made by the Company could materially adversely affect the Company's business and operating results.

Regulation of the Internet

There are currently few laws or regulations that apply directly to access or commerce on the Internet. The Company could be materially adversely affected by proposed regulation on voice over the Internet, encryption technology and access charges for Internet service providers, as well as the continuing deregulation of the telecommunication industry. The adoption of such measures could decrease demand for the Company's products, and at the same time increase the Company's cost of selling its products. Changes in laws or regulations governing the Internet and Internet commerce could have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on New Product Development

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, and evolving methods of building and operating networks. There can be no assurance that the Company will successfully identify new product opportunities and develop and bring new products to market in a timely manner, or that products and technologies developed by others will not render the Company's products or technologies obsolete or noncompetitive.

Entering New or Developing Markets

As the Company focuses on new market opportunities, such as transporting data, voice and video traffic across the same network, it will increasingly compete with a number of large telecommunications equipment suppliers, such as Lucent, Ericsson, and Nortel, among others, and well funded start-up companies. Many of these companies have substantially greater financial, marketing and technical resources than the Company. If the Company cannot successfully compete with these and other potential competitors, it could have a material adverse effect on the Company's business, operating results and financial condition. Additionally, as customers in these markets complete infrastructure deployment, they may require greater levels of service, support and financing than the Company has experienced in the past. There can be no assurance that the Company can provide products, service, support and financing to effectively compete for these market

opportunities. Further, provision of greater levels of services by the Company may result in less favorable revenue recognition treatment than has historically been experienced.

Availability of Product

The Company's growth and ability to meet customer demands also depend in part on its ability to obtain timely deliveries of parts from its suppliers. The Company has experienced component shortages in the past that have adversely affected its operations. Although the Company works closely with its suppliers to avoid these types of shortages, there can be no assurances that the Company will not encounter these problems in the future.

Natural Disasters

The Company's corporate headquarters, including most of its research and development operations and its manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, one of the Company's manufacturing facilities is located near a river that has experienced flooding in the past. A significant natural disaster, such as an earthquake or a flood, could have a material adverse impact on the Company's business, financial condition and operating results.

OTHER RISK FACTORS

Potential Fluctuations in Quarterly Results

The Company's operating results have in the past been, and may continue to be, subject to quarterly fluctuations as a result of a number of factors. These factors include: the introduction and market acceptance of new technologies, including Gigabit Switch Routing and Tag Switching (currently also known as multiprotocol label switching [MPLS]); the timing of orders and manufacturing lead times; variations in sales channels, product costs or mix of products sold; increased competition in the networking industry; the overall trend toward industry consolidation; the integration of people, operations and products from acquired businesses and technologies; and changes in general economic conditions and specific economic conditions in the computer and networking industries, any of which could have a material adverse impact on operations and financial results. For example, the Company from time to time has made acquisitions that result in purchased research and development expenses being charged in an individual quarter. These charges may occur in any particular quarter resulting in variability in the Company's quarterly earnings. Additionally, the dollar amounts of large orders for the Company's products have been increasing, and therefore the operating results for a quarter could be materially adversely affected if a number of large orders are either not received or are delayed, due for example, to cancellations, delays or deferrals by customers.

Dependence on New Product Development; Rapid Technological and Market Change

The Company's operating results will depend to a significant extent on its ability to reduce the costs to produce existing products. In particular, the Company broadened its product line by introducing network access products. Sales of these products, which are generally lower priced and carry lower margins than the Company's core products, have increased more

rapidly than sales of the Company's core products. The success of these and other new products is dependent on several factors, including proper new product definition, product cost, timely completion and introduction of new products, differentiation of new products from those of the Company's competitors and market acceptance of these products. The Company has addressed the need to develop new products through its internal development effort, joint development with other companies and acquisitions. There can be no assurance that the Company will successfully identify new product opportunities, develop and bring new products to market in a timely manner, and achieve market acceptance of its products, or that products and technologies developed by others will not render the Company's products or technologies obsolete or noncompetitive.

Strategic Alliances

The Company has a number of strategic alliances with companies including Microsoft, Hewlett-Packard, EDS, and Sprint, among others. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. If successful, these relationships will be mutually beneficial and result in industry growth. However, these alliances carry an element of risk because, in most cases, the Company must compete in some business areas with a company with which it has strategic alliances, and at the same time, cooperate with such companies in other business areas. Also, if these companies fail to perform, or if these relationships fail to materialize as expected, Cisco could suffer delays in product development or other operational difficulties.

Industry Consolidation

There has been a trend toward industry consolidation for several years, which has continued during fiscal 1998. In September 1998, Northern Telecom completed its acquisition of Bay Networks. In fiscal 1997, 3Com completed its acquisition of U.S. Robotics; and, Ascend Communications, Inc. completed its acquisition of Cascade Communications Corporation. The Company expects this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry. The Company believes that industry consolidation may provide stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in operating results as the Company competes to be a single vendor solution and could have a material adverse effect on the Company's business, operating results, and financial condition.

Organizational Changes

The Company has realigned its business around three key customer groups or lines of business. The Company believes this realignment of resources enables it to better meet the needs of its customers. There are risks inherent in any business realignment or reorganization, and the Company can give no assurance that these organizational changes will meet their intended objectives.

Variability in Service Provider Sales

Although sales to the service provider market have continued to grow, this market is characterized by large, and often sporadic purchases. Sales activity in this industry depends upon the stage of completion of

expanding network infrastructures, the availability of funding, and the extent that service providers are affected by regulatory and business conditions in the country of operations. A decline or delay in sales orders from this industry could have a material adverse effect on the Company's business, operating results and financial condition.

Manufacturing Risks

Although the Company generally uses standard parts and components for its products, certain components are presently available only from a single source or limited sources. A reduction or interruption in supply or a significant increase in the price of one or more components would adversely affect the Company's business, operating results and financial condition and could damage customer relationships.

Changes in Telecommunications Laws and Tariffs

Changes in domestic and international telecommunication requirements could affect the Company's sales of its products. In particular, the Company believes it is possible that there may be significant changes in domestic telecommunications regulations in the near future that could slow the expansion of the service providers' network infrastructures and adversely affect the Company's business, operating results and financial condition. Future changes in tariffs by regulatory agencies or application of tariff requirements to currently untariffed services could affect the sales of the Company's products for certain classes of customers. Additionally, in the U.S. the Company's products must comply with various Federal Communication Commission requirements and regulations. In countries outside of the U.S., the Company's products must meet various requirements of local telecommunications authorities. Changes in tariffs, or failure by the Company to obtain timely approval of products could have a material adverse effect on the Company's business, operating results and financial condition.

International Operations

The Company conducts business globally. Accordingly, the Company's future results could be adversely affected by a variety of uncontrollable and changing factors including foreign currency exchange rates; regulatory, political or economic conditions in a specific country or region; trade protection measures and other regulatory requirements; government spending patterns; and natural disasters, among other factors. In fiscal 1998, the Company experienced slower sales growth in Japan, as well as in certain other parts of Asia. Any or all of these factors could have a material adverse impact on the Company's future international business in these or other countries.

Risks Associated With Internet Infrastructure

The Company's management believes that there will be performance problems with Internet communications in the future which could receive a high degree of publicity and visibility. As the Company is a large supplier of equipment for the Internet infrastructure, customers' perceptions of the Company's products and the marketplace's perception of Cisco as a supplier of networking products, may be materially adversely affected, regardless of whether or not these problems are due to the performance of Cisco's products. Such an event could also result in a material adverse effect on the market price of the Company's Common Stock and could materially adversely affect Cisco's business operating results and financial condition.

Volatility of Stock Price

The Company's Common Stock has experienced substantial price volatility, particularly as a result of variations between the Company's actual or anticipated financial results and the published expectations of analysts and as a result of announcements by the Company and its competitors. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in particular and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may adversely affect the market price of the Company's Common Stock in the future.

EMPLOYEES

As of September 18, 1998, the Company employed approximately 15,000 persons, including 3,000 in manufacturing, service and support, 6,300 in sales and marketing, 4,500 in engineering, and 1,200 in finance and administration. Approximately 3,000 employees were in international locations.

None of the employees are represented by a labor union, and the Company considers its relations with its employees to be positive. The Company has experienced no work stoppages.

Competition for technical personnel in the Company's industry is intense. The Company believes that its future success depends in part on its continued ability to hire, assimilate, and retain qualified personnel. To date, the Company believes that it has been successful in recruiting qualified employees, but there is no assurance that it will continue to be successful in the future.

ITEM 2. PROPERTIES

The Company's principal corporate offices are located at sites in Santa Clara and San Jose, California. The Company's main headquarters are situated on 448 acres of leased land in San Jose, California. There are 21 buildings located at this site, one of which is a manufacturing facility. The San Jose headquarters consist of approximately 2.6 million square feet of leased office space at the present time. Six buildings have been completed at a site under construction near its present corporate offices in San Jose, California. The Company expects that construction at this site will continue through 1999, with the potential to add approximately 2.2 million square feet of leased office space. Additionally, two new sites have recently been leased near its present corporate offices in San Jose, California. Construction has not yet begun at these sites. The Company has also assumed certain operating leases for 6 buildings as part of the StrataCom acquisition. These buildings, including an additional manufacturing facility, are located at various sites in San Jose, California and total approximately .5 million square feet.

In addition to the California facilities, the Company leases approximately 45 acres of land in Research Triangle Park, North Carolina, where the InterWorks Business Unit, as well as a Technical Assistance Center, telesales, and various other support functions, are located. There are four buildings at this site with a total of approximately 1 million square feet of office space.

The Company also leases various small offices throughout the U.S. and on a worldwide basis. For additional information regarding the Company's obligations under leases, see Note 7 "Commitments and Contingencies" on page 40 of the Company's 1998 Annual Report to Shareholders, which is hereby incorporated by reference.

ITEM 3. LEGAL PROCEEDINGS

In June 1998, Lucent brought suit in Federal District Court in Delaware against the Company, alleging the Company violated eight of Lucent's patents related to data networking. Lucent is seeking damages for infringement and an injunction prohibiting future use of the patents.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITION	POSITION HELD SINCE
Larry R. Carter	55	Senior Vice President, Finance and Administration, Chief Financial Officer, and Secretary Mr. Carter joined the Company in January 1995 as Vice President for Finance and Administration. In July 1997, he was promoted to his present position of Senior Vice President. From July 1992 to January 1995, he was Vice President and Corporate Controller for Advanced Micro Devices. Prior to that, he was with V.L.S.I. Technology, Inc. for four years where he held the position of Vice President, Finance and Chief Financial Officer.	1997
John T. Chambers	49	President, Chief Executive Officer and Director Mr. Chambers has been a member of the Board of Directors since November 1993. He joined the Company as Senior Vice President in January 1991 and became Executive Vice President in June 1994. Mr. Chambers became President and Chief Executive Officer of the Company as of January 31, 1995. Prior to his services at Cisco, he was with Wang Laboratories for eight years, most recently as Senior Vice President of U.S. Operations.	1995
Gary Daichendt	48	Executive Vice President, Worldwide Operations Mr. Daichendt joined the Company in October 1994 as Vice President for Intercontinental Operations, Covering Asia, Pacific Rim, Canada, Central and South America and Mexico. In October 1997, Mr. Daichendt became Senior Vice President, Worldwide Operations at Cisco Systems and became Executive Vice President in August 1998. He is responsible for managing the sales and distribution operations of Cisco offices worldwide. Prior to his services at Cisco, he spent eight years at Wang Laboratories, most recently as Vice President of Central Operations and Vice President of Worldwide Marketing. Mr. Daichendt also spent ten years with IBM in various sales, marketing, and management positions.	1998
Judith Estrin	43	Senior Vice President, Business Development, Chief Technology Officer Ms. Estrin joined the Company in April 1998 in her present position. Prior to joining Cisco, Ms. Estrin was CEO of Precept Software, Inc. which she co-founded in 1995. Precept was acquired by Cisco in March 1998. Prior to that, she spent six years at Network Computing Devices, most recently as President and CEO. Ms. Estrin currently serves on the Board of Directors of Federal Express, Rockwell International, Sun Microsystems and the Walt Disney Company.	1998
Edward R. Kozel	43	Senior Vice President, Corporate Development and Director Mr. Kozel has been a member of the Board of Directors since November 1996. He joined the Company as Director, Program Management in March 1989. In April 1992, Mr. Kozel became Director of Field Operations and in February 1993, he became Vice President of Business Development. In January 1996, he became Chief Technology Officer of the Company and has been in his current position since April 1998. Mr. Kozel currently serves on the Board of Directors of Centigram Communications Corporation.	1998

NAME	AGE	POSITION	POSITION HELD SINCE
Donald J. Listwin	39	Executive Vice President, Service Provider and Consumer Lines of Business Mr. Listwin joined the Company in 1990 as a Product Marketing Manager. He held various positions within the marketing department before being promoted to Vice President of Marketing in September 1993. Mr. Listwin was promoted to Vice President and General Manager of the Access Business Unit in September of 1995. He became Senior Vice President of Cisco IOS Development and Marketing in August of 1996 and Senior Vice President of the Service Provider Line of Business in April 1997. He became Executive Vice President, Service Provider and Consumer Lines of Business in May 1998. Mr. Listwin Currently serves on the Board of Directors of Software.com.	1998
Mario Mazzola	51	Senior Vice President, Enterprise Line of Business Mr. Mazzola was the President and CEO of Crescendo Communications, Inc. which he founded in 1990. Crescendo was acquired by Cisco Systems in September 1993. At that time, Mr. Mazzola joined Cisco as the Vice President and General Manager of the Workgroup Business Unit. Mr. Mazzola became Senior Vice President of the Enterprise Line of Business in April 1997. Mr. Mazzola was the VP of Engineering of David Systems which he co-founded in June 1982. Mr. Mazzola holds several patents on high-speed transmission techniques on unshielded twisted-pair wiring.	1997
Carl Redfield	51	Senior Vice President, Manufacturing and Logistics Mr. Redfield joined the Company in August 1993 as Director, Supply/Demand of Manufacturing and became Vice President of Manufacturing in September 1993. Mr. Redfield became Senior Vice President, Manufacturing and Logistics in February 1997. Prior to joining Cisco, he spent eighteen years at Digital Equipment Company, most recently as Group Manufacturing and Logistics Manager of the PC Group.	1997

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The information required by this Item is incorporated by reference to page 48 of the Company's 1998 Annual Report to Shareholders.

(b) During the quarter ended July 25, 1998, the Company issued an aggregate of 241,739 (reflective of the three-for-two stock split effective September 1998) shares of its Common Stock in connection with the purchase of the capital stock of C.D.S.I. Ltd., ("CDSI"). The shares were issued pursuant to an exemption by reason of Section 4(2) of the Securities Act of 1933. These sales were made without general solicitation or advertising. Each purchaser was an accredited investor or a sophisticated investor with access to all relevant information necessary. The Company has filed a Registration Statement on Form S-3 covering the resale of such securities.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 19 of the Company's 1998 Annual Report to Shareholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 20-27 of the Company's 1998 Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is incorporated by reference to pages 23-25 of the Company's 1998 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 28-48 of the Company's 1998 Annual Report to Shareholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information regarding Directors appearing under the caption "Election of Directors" in the Company's proxy statement to be mailed to Shareholders on or about September 28, 1998, which information is incorporated herein by reference; and to the information under the heading "Executive Officers of the Registrant" in Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing at the end of Part I and under the caption "Executive Compensation and Related Information" in the Company's proxy statement to be mailed to Shareholders on or about September 28, 1998, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under the captions "Election of Directors" and "Ownership of Securities" in the Company's proxy statement to be mailed to Shareholders on or about September 28, 1998, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the caption "Ownership of Securities" and "Executive Compensation and Related Information" in the Company's proxy statement to be mailed to Shareholders on or about September 28, 1998, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements listed in Item 14(a) are filed or incorporated herein by reference as part of this annual report. See Index to Financial Statements and Financial Statement Schedule on Page 23.

2. Financial Statement Schedule

The financial statement schedule listed in Item 14(a) is filed as part of this annual report. See Index to Financial Statements and Financial Statement Schedule on Page 23.

3. Exhibits

The exhibits listed in the accompanying Index to Exhibits on pages 26-28 are filed or incorporated by reference as part of this annual report.

(b) Reports on Form 8-K

The Company filed four reports on form 8-K during the fourth quarter ended July 25, 1998. Information regarding the items reported on is as follows:

Date ----	Item Reported On -----
April 29, 1998	Adoption of Statement of Financial Accounting Standard (SFAS) No. 128 "Earnings Per Share."
May 15, 1998	The March 1998 acquisition of WheelGroup Corporation, and the April 1998 acquisitions of Precept Software, Inc. and NetSpeed, Inc.
June 11, 1998	Adoption of Preferred Stock Rights Agreement.
July 9, 1998	Lucent patent suit.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California on this 23rd day of September, 1998. Cisco Systems, Inc.

/s/ John T. Chambers

*(John T. Chambers, President and
Chief Executive Officer)*

Pursuant to the requirements of the Securities Act of 1933, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
----- <i>/s/ John T. Chambers</i> ----- John T. Chambers	----- President and Chief Executive Officer (Principal Executive Officer and Director)	----- September 23, 1998
----- <i>/s/ Larry R. Carter</i> ----- Larry R. Carter	----- Senior Vice President, Finance and Administration, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	----- September 23, 1998
----- John P. Morgridge	----- Chairman of the Board and Director	
----- <i>/s/ Donald T. Valentine</i> ----- Donald T. Valentine	----- Vice Chairman of the Board and Director	----- September 23, 1998
----- <i>/s/ Carol A. Bartz</i> ----- Carol A. Bartz	----- Director	----- September 23, 1998
----- <i>/s/ Mary Cirillo</i> ----- Mary Cirillo	----- Director	----- September 23, 1998
----- <i>/s/ Dr. James F. Gibbons</i> ----- Dr. James F. Gibbons	----- Director	----- September 23, 1998
----- <i>/s/ Edward R. Kozel</i> ----- Edward R. Kozel	----- Senior Vice President, Corporate Development and Director	----- September 23, 1998
----- <i>/s/ James C. Morgan</i> ----- James C. Morgan	----- Director	----- September 23, 1998

Signature	Title	Date
----- /s/ Robert L. Puette ----- Robert L. Puette	----- Director	----- September 23, 1998
----- /s/ Masayoshi Son ----- Masayoshi Son	----- Director	----- September 23, 1998
----- /s/ Steven M. West ----- Steven M. West	----- Director	----- September 23, 1998

**INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE**

ITEM 14(a)

	Page

	1998 Annual Report to Shareholders
	Form 10-K
Data incorporated by reference from the 1998 Annual Report to Shareholders of Cisco Systems, Inc.:	
Consolidated statements of operations for each of the three years in the period ended July 25, 1998	28
Consolidated balance sheets at July 25, 1998 and July 26, 1997	29
Consolidated statements of shareholders' equity for each of the three years in the period ended July 25, 1998.....	30-31
Consolidated statements of cash flows for each of the three years in the period ended July 25, 1998	32
Notes to consolidated financial statements.....	33-46
Report of Independent Accountants.....	47
Supplementary financial data: Fiscal years 1998 and 1997 by quarter (unaudited)	48
 Data submitted herewith:	
 Financial Statement Schedule:	
Report of Independent Accountants.....	24
II Valuation and qualifying accounts.....	25

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements or notes thereto.

With the exception of the consolidated financial statements and the independent accountants' report thereon listed in the above index, the information referred to in Items 1, 5, 6, 7 and 7A and the supplementary quarterly financial information referred to in Item 8, all of which is included in the Company's Annual Report to Shareholders and incorporated by reference into this Form 10-K Annual Report, the 1998 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

Board of Directors and Shareholders
Cisco Systems, Inc.:

Our report on the consolidated financial statements of Cisco Systems, Inc. and its subsidiaries has been incorporated by reference in this Form 10-K from Page 47 of the 1998 Annual Report to Shareholders of Cisco Systems, Inc. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 25 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/s/ PricewaterhouseCoopers LLP

*San Jose, California
August 4, 1998*

CISCO SYSTEMS, INC.

**SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)**

	Balance at Beginning of Period -----	Charged to Expenses -----	Deductions -----	Balance at End of Period -----
Year ended July 28, 1996:				
Allowance for doubtful accounts	18,427	18,548	15,901	21,074
Allowance for excess and obsolete Inventory	46,242	53,025	37,481(1)	61,786
Year ended July 26, 1997:				
Allowance for doubtful accounts	21,074	13,318	12,052	22,340
Allowance for excess and obsolete Inventory	61,786	123,431	104,404(1)	80,813
Year ended July 25, 1998:				
Allowance for doubtful accounts	22,340	43,463	25,961	39,842
Allowance for excess and obsolete Inventory	80,813	160,633	97,336(1)	144,110

(1) Deductions principally relate to charges for standards changes.

INDEX TO EXHIBITS

(Item 14 (a))

Exhibit Number -----	Exhibit Description -----
3.1	Cisco Systems, Inc. Restated Articles of Incorporation, as currently in effect
3.2	Cisco Systems, Inc. Amended and Restated Bylaws, as currently in effect
10.1	Rights Agreement dated as of June 10, 1998 between Cisco Systems, Inc. and Bank Boston, N.A.(1)
10.2	Cisco Systems, Inc. 1996 Stock Incentive Plan (including the following: Form of Notice of Grant Form of Stock Option Agreement Form of Addendum to Stock Option Agreement - Involuntary Termination Following Corporate Transaction Form of Addendum to Stock Option Agreement - Limited Stock Appreciation Rights Form of Notice of Automatic Stock Option - Initial Form of Notice of Automatic Stock Option -- Annual Form of Automatic Stock Option Agreement)
10.3	1997 Supplemental Stock Incentive Plan (including the following: Stock Option Agreement in connection with the 1997 Supplemental Stock Incentive Plan)
10.12*	Senior Management Incentive Plan-Fiscal Year 1999
10.13	Cisco Systems, Inc. 1989 Employee Stock Purchase Plan(6)
10.14	Master Lease (Cisco Technology, Inc. Trust 1998), dated as of June 2, 1998 between State Street Bank and Trust Company of California, N.A., not in its individual capacity, but solely as Certificate Trustee, as Lessor, and Cisco Technology, Inc., as Lessee, and General Guarantee (Cisco Technology, Inc. Trust 1998) from Cisco Systems, Inc., dated as of June 2, 1998 and a Participant Guarantee (Cisco Technology, Inc. Trust 1998) from Cisco Systems, Inc., dated as of June 2, 1998.
10.23	Lease Agreement between the Company and SGA Development Partnership, Ltd., dated February 19, 1993, for the Company's site in San Jose, California.(3)
10.24	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated May 13, 1993 for the Company's facilities in San Jose, California(3)
10.25	Lease Agreement between the Company and SGA Development Partnership, Ltd., dated February 19, 1993, for the Company's site in San Jose, California(3)
10.26	Lease Agreement between the Company and the State of California Public Employees' Retirement System dated March 11, 1993, for the Company's facilities at 3100 Smoketree Court(3)
10.27	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated July 11, 1994 for the Company's site in Wake County, North Carolina(3)
10.28	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated August 12, 1994 for the Company's facilities in Wake County, North Carolina(3)

Exhibit Number -----	Exhibit Description -----
10.29	Lease (Buildings "I" and "J") by and between Sumitomo Bank of New York Trust Company ("SBNYTC") as trustee under that certain Trust Agreement dated May 22, 1995 between Sumitomo Bank Leasing and Finance, Inc. and SBNYTC ("SB Trust"), as Landlord, and the Company, as tenant, dated May 22, 1995(3)
10.30	First Amendment to Lease (Buildings "I" and "J") between SB Trust and the Company, dated July 18, 1995(3)
10.31	Lease (Buildings "K" and "L") by and between SB Trust and the Company, dated May 22, 1995(3)
10.32	First Amendment to Lease (Buildings "K" and "L") between SB Trust and the Company, dated July 18, 1995(3)
10.33	Lease (Improvements Phase "C") between SB Trust and the Company, dated May 22, 1995(3)
10.34	First Amendment to Lease (Improvements Phase "C") between SB Trust and the Company, dated July 18, 1995(3)
10.35	Ground Lease (Parcel 2 and Lot 54) by and between Irish Leasing Corporation ("Irish"), as Landlord, and the Company, as Tenant, dated February 28, 1995 for the Company's site in San Jose, California(3)
10.36	First Amendment to Lease (Parcel 2 and Lot 54) by and between Irish and the Company dated as of May 1, 1995(3)
10.37	Second Amendment to Lease (Parcel 2 and Lot 54) by and between Irish and the Company dated as of May 22, 1995(3)
10.38	Ground Lease (Lots 58 and 59) by and between Irish and the Company dated February 28, 1995 for the Company's site in San Jose, California(3)
10.39	First Amendment to Lease (Lots 58 and 59) by and between Irish and the Company dated as of May 1, 1995(3)
10.40	Second Amendment to Lease (Lots 58 and 59) by and between Irish and the Company dated as of May 22, 1995(3)
10.41	Ground Lease (Tasman Phase C) by and between Irish and the Company dated April 12, 1995 for the Company's site in San Jose, California(3)
10.42	First Amendment to Lease (Tasman Phase C) by and between Irish and the Company dated as of May 1, 1995(3)
10.43	Second Amendment to Lease (Tasman Phase C) by and between Irish and the Company dated as of May 22, 1995(3)
10.44	Credit Agreement between the Company, the Banks listed therein, Bank of America National Trust and Savings Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Documentation Agent and Bank of America National Trust and Savings Association, as Issuing Bank dated as of May 22, 1995(3)
10.46	Lease Agreement between the Company and First State Realty of America, Inc., dated February 7, 1997, for the Company's site in Santa Clara, California.(5)
10.47	Lease Agreement between the Company and Berg & Berg Enterprises, Inc., dated December 31, 1996, for the Company's site in Santa Clara, California(5)
10.48	Lease (Buildings "A" and "C") by and between SBC&D Co., Inc. and the Company, dated November 26, 1996, located in San Jose, California(5)
10.49	Lease (Buildings "B" and "D") by and between SBC&D Co., Inc. and the Company, dated November 26, 1996, located in San Jose, California(5)
10.50	Lease agreement between the Company and Lincoln-Whitehall Realty (West) L.L.C., dated December 12, 1996, for the Company's site in San Jose, CA(6)

Exhibit Number -----	Exhibit Description -----
10.51	Lease agreement between the Company and Lincoln-Whitehall Realty (West) L.L.C., dated December 18, 1996, for the Company's site in San Jose, CA(6)
10.52	Master Lease between the Company, as the Lessee, and UBS MORTGAGE FINANCE INC. as the Lessor, dated December 27, 1996(6)
10.53	Credit Agreement dated as of July 2, 1997 among Cisco Systems, Inc., and Citicorp USA, Inc., as Administrative Agent, Morgan Guaranty Trust Company of New York, as Documentation Agent, Bank of America National Trust and Savings Association, the Chase Manhattan Bank, as Co-Agents, and Citicorp Securities, Inc. and J.P. Morgan Securities Inc. Arrangers(6)
10.54	Second Amendment to Lease between Cisco Systems, Inc. and Sumitomo Bank Leasing and Finance, Inc., dated February 24, 1998
10.55	Third Amendment to Lease between SGA Development Partnership, LTD. and Cisco Systems, Inc., dated February 24, 1998
13.01	Pages 19 through 48 of the Registrant's 1998 Annual Report to Shareholders
21.01	Subsidiaries of the Company
23.02	Consent of Independent Accountants
27	Financial Data Schedule

(1) Incorporated by reference for Exhibit 4 of the Company's Form 8-K filed on June 11, 1998.

(2) Incorporated by reference to the exhibits with the correspondence exhibit numbers of the Company's registration statement on Form S-1 (File 33-32778).

(3) Incorporated by reference to exhibits with the correspondence exhibit numbers of the Company's Annual Report on Form 10-K for the fiscal year ended July 30, 1995.

(4) Incorporated by reference to exhibits with the corresponding exhibit numbers of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended January 25, 1997.

(5) Incorporated by reference to exhibits with the corresponding exhibit numbers of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 26, 1997.

(6) Incorporated by reference to exhibits with the corresponding exhibit numbers of the Company's Annual Report on Form 10-K for the fiscal year ended July 26, 1997.

* Management compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

Exhibit 3.1

**CERTIFICATE OF AMENDMENT
OF THE RESTATED ARTICLES OF INCORPORATION OF
CISCO SYSTEMS, INC.
A CALIFORNIA CORPORATION**

The undersigned, John T. Chambers and Larry R. Carter, hereby certify that:

ONE: They are the duly elected and acting President and Secretary, respectively, of said corporation.

TWO: The Restated Articles of Incorporation of said corporation, filed on January 7, 1998, shall be amended as set forth in this Certificate of Amendment.

THREE: Section A of ARTICLE IV of the Restated Articles of Incorporation is amended to read in its entirety as follows:

"(A) CLASSES OF STOCK. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares that the corporation is authorized to issue is Two Billion Seven Hundred Five Million (2,705,000,000) shares. Two Billion Seven Hundred Million (2,700,000,000) shares shall be Common Stock, par value of \$0.001, and Five Million (5,000,000) shares shall be Preferred Stock.

As of September 15, 1998, every two (2) shares of Common Stock outstanding are split into three (3) shares of Common Stock."

FOUR: The foregoing Certificate of Amendment has been duly approved by the Board of Directors of the Corporation.

FIVE: The foregoing Certificate of Amendment of the Restated Articles of Incorporation does not require shareholder approval pursuant to Section 902(c) of the General Corporation Law of the State of California. No shares of Preferred Stock are outstanding.

IN WITNESS WHEREOF, the undersigned have executed this Certificate of Amendment on August 19, 1998.

John T. Chambers President

Larry R. Carter Secretary

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

Executed at San Jose, California, on August 19, 1998.

John T. Chambers

Larry R. Carter

**RESTATED ARTICLES OF INCORPORATION
OF CISCO SYSTEMS, INC.,
A CALIFORNIA CORPORATION**

The undersigned, John T. Chambers and Larry R. Carter, hereby certifies that:

ONE: They are the duly elected and acting President and Secretary, respectively, of said corporation.

TWO: The Restated Articles of Incorporation of said corporation shall be amended and restated in its entirety to read in full as follows:

ARTICLE I

The name of this corporation is Cisco Systems, Inc.

ARTICLE II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

ARTICLE IV

(A) CLASSES OF STOCK. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares that the corporation is authorized to issue is Two Billion Four Hundred Five Million (2,405,000,000) shares. Two Billion Four Hundred Million (2,400,000,000) shares shall be Common Stock, par value of \$0.001 and Five Million (5,000,000) shares shall be Preferred Stock.

(B) RIGHTS, PREFERENCES AND RESTRICTIONS OF PREFERRED STOCK. The Preferred Stock authorized by these Restated Articles of Incorporation may be issued from time to time in series. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon series of Preferred Stock,

and the number of shares constituting any such series and the designation thereof, or of any of them. Subject to compliance with applicable protective voting rights that have been or may be granted to the Preferred Stock or any series thereof in any Certificate of Determination or the corporation's Articles of Incorporation ("Protective Provisions"), but notwithstanding any other rights of the Preferred Stock or any series thereof, the rights, privileges, preferences and restrictions of any such additional series may be subordinated to, pari passu with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or senior to any of those of any present or future class or series of Preferred Stock or Common Stock. Subject to compliance with applicable Protective Provisions, the Board of Directors also is authorized to increase or decrease the number of shares of any series prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

1. **REPURCHASE OF SHARES.** In connection with repurchases by this corporation of its Common Stock pursuant to its agreements with certain of the holders thereof, Sections 502 and 503 of the California General Corporation Law shall not apply in whole or in part with respect to such repurchases.

(C) COMMON STOCK.

1. **DIVIDEND RIGHTS.** Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

2. **LIQUIDATION RIGHTS.** Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to liquidation, upon the liquidation, dissolution or winding up of the corporation, the assets of the corporation shall be distributed to the holders of the Common Stock.

3. **REDEMPTION.** The Common Stock is not redeemable.

4. **VOTING RIGHTS.** The holder of each share of Common Stock shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of this corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

ARTICLE V

(A) The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

(B) The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to the corporation and its shareholders.

ARTICLE VI

Shareholders of this corporation shall not be entitled to cumulate their votes at any election of directors of this corporation. The corporation's common stock is qualified for trading on the Nasdaq National Market and there were at least 800 holders of its equity securities as of the record date of the most recent annual shareholders meeting.

THREE: The foregoing restatement of the Restated Articles of Incorporation, as amended, has been duly approved by the Board of Directors of said corporation and does not require shareholder approval pursuant to section 910(b) of the California Corporations Code.

IN WITNESS WHEREOF, the undersigned have executed these Restated Articles of Incorporation on the ____ of December 1997.

John T. Chambers, President

Larry R. Carter, Secretary

The undersigned certifies under penalty of perjury that they have read the foregoing Restated Articles of Incorporation and know the contents thereof, and that the statements therein are true.

Executed at San Jose, California, on December ____, 1997.

John T. Chambers

Larry R. Carter

4.

CERTIFICATE OF DETERMINATION

of

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

CISCO SYSTEMS, INC.

(Pursuant to Section 401 of the
California General Corporation Law)

John T. Chambers, President and Chief Executive Officer, and David Rogan, Vice President, Treasurer and Assistant Secretary of Cisco Systems, Inc., a corporation organized and existing under the General Corporation Law of the State of California (hereinafter called the "Corporation"), do hereby certify that the following resolution was adopted by the Board of Directors of the Corporation as required by Section 401 of the General Corporation Law at a meeting duly called and held on June 8, 1998 creating a series of 1,200,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock of which none has been issued:

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

Series A Junior Participating Preferred Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be one million two hundred thousand (1,200,000). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

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

(B) The Corporation shall declare a dividend or distribution on the shares of Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided, however, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Distribution Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$.000001 per share of Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on each outstanding

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

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

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

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

(C) Except as set forth herein, or as otherwise provided by law, holders of

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

Section 4. Certain Restrictions.

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

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

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

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

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

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

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

Section 6. Liquidation, Dissolution or Winding Up.

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

(1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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

parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

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

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

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

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

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

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

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

Name:

Title:

Name:

Title:

Exhibit 3.2

**AMENDED AND RESTATED BYLAWS
OF
CISCO SYSTEMS, INC.**

(AS AMENDED MARCH 10, 1985, DECEMBER 10, 1987, OCTOBER 11,
1988, DECEMBER 20, 1989, JULY 31, 1996 AND JUNE 8, 1998)

Article 1.

-OFFICES

Section 1.01 The principal executive offices of Cisco Systems, Inc. (the "Corporation") shall be at such place inside or outside the State of California as the Board of Directors may determine from time to time.

Section 1.02 The Corporation may also have offices at such other places as the Board of Directors may from time to time designate, or as the business of the Corporation may require.

Article 2.

- SHAREHOLDERS' MEETINGS

Section 2.01 Annual Meetings. The annual meeting of the shareholders of the Corporation for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting shall be held each year on the second Thursday in November at 10:00 a.m. at the principal office of the Corporation, or at such other time and place as may be determined by the Board of Directors, if not a legal holiday, and if a legal holiday, then on the next succeeding business day at the same hour and place. If the annual meeting of the shareholders be not held as herein prescribed, the election of directors may be held at any meeting thereafter called pursuant to these Bylaws.

Section 2.02 Special Meetings. Special meetings of the shareholders, for any purpose whatsoever, unless otherwise prescribed by statute or the articles of incorporation or bylaws of the Corporation, may be called at any time by the Chairman of the Board, the President, by the Board of Directors, or by one or more shareholders holding not less than ten percent (10%) of the voting power of the Corporation on the record date established pursuant to Article II, Section 7 of these Bylaws. Upon request in writing sent by registered mail to the Chief Executive Officer, President or Secretary of the Corporation, or delivered to any such officer in person, by any person or persons entitled to call a special meeting of shareholders (such request, if sent by a shareholder or shareholders, to include the information required by Article II, Section 11 of these Bylaws), it shall be the duty of such officer, subject to the immediately succeeding sentence, to cause notice to be given to the shareholders entitled to vote that a meeting will be requested by the person or persons calling the meeting, the date of which meeting, which shall be set by such officer,

to be not less than 35 days nor more than 60 days after such request or, if applicable, determination of the validity of such request pursuant to the immediately succeeding sentence. Within five business days after receiving such a request from a shareholder or shareholders of the Corporation, the Board of Directors shall determine whether shareholders owning not less than ten percent (10%) of the shares as of the record date established pursuant to Article II, Section 7 of these Bylaws for such request support the call of a special meeting and notify the requesting party or parties of its finding.

Section 2.03 Place. All meetings of the shareholders shall be at any place within or without the State of California designated either by the Board of Directors or by written consent of the holders of a majority of the shares entitled to vote thereat, given either before or after the meeting. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the Corporation.

Section 2.04 Notice. Notice of meetings of the shareholders of the Corporation shall be given in writing to each shareholder entitled to vote, either personally or by first-class mail (unless the Corporation has 500 or more shareholders determined as provided by the California Corporations Code on the record date for the meeting, in which case notice may be sent by third-class mail) or other means of written communication, charges prepaid, addressed to the shareholder at his address appearing on the books of the Corporation or given by the shareholder to the Corporation for the purpose of notice. Notice of any such meeting of shareholders shall be sent to each shareholder entitled thereto not less than ten (10) days (or, if sent by third-class mail, 30 days) nor more than 60 days before the meeting. Said notice shall state the place, date and hour of the meeting and, (1) in the case of special meetings, the general nature of the business to be transacted, and no other business may be transacted, or (2) in the case of annual meetings, those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but subject to Section 601(f) of the California Corporations Code any proper matter may be presented at the meeting for shareholder action, and (3) in the case of any meeting at which directors are to be elected, the names of the nominees intended at the time of the mailing of the notice to be presented by management for election.

Section 2.05 Adjourned Meetings. Any shareholders' meeting may be adjourned from time to time by (1) the vote of the holders of a majority of the voting shares present at the meeting either in person or by proxy or (2) the chairman of the meeting. Notice of any adjourned meeting need not be given unless a meeting is adjourned for forty-five (45) days or more from the date set for the original meeting.

Section 2.06 Quorum. The presence in person or by proxy of the persons entitled to vote a majority of the shares entitled to vote at any meeting constitutes a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

In the absence of a quorum, any meeting of shareholders may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but no other business may be transacted, except as provided above.

Section 2.07 Consent to Shareholder Action. Any action which may be taken at any meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares on the record date established pursuant to Article II, Section 10 of these Bylaws having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, that (1) unless the consents of all shareholders entitled to vote have been solicited in writing, notice of any shareholder approval without a meeting by less than unanimous written consent shall be given as required by the California Corporations Code, and (2) directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

Any written consent may be revoked by a writing received by the Secretary of the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

Section 2.08 Waiver of Notice. The transactions of any meeting of shareholders, however called and noticed, and whenever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting, or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 2.09 Voting. The voting at all meetings of shareholders need not be by ballot, but any qualified shareholder before the voting begins may demand a stock vote whereupon such stock vote shall be taken by ballot, each of which shall state the name of the shareholder voting and the number of shares voted by such shareholder, and if such ballot be cast by a proxy, it shall also state the name of such proxy.

At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy appointed in a writing subscribed by such shareholder and bearing a date not more than eleven (11) months prior to said meeting, unless the writing states that it is irrevocable and satisfies Section 705(e) of the California Corporations Code, in which event it is irrevocable for the period specified in said writing and said Section 705(e).

Section 2.10 Record Dates. In the event the Board of Directors fixes a day for the determination of shareholders of record entitled to vote as provided in

Section 1 of Article V of these Bylaws, then, subject to the provisions of the General Corporation Law of the State of California, only persons in whose name shares entitled to vote stand on the stock records of the Corporation at the close of business on such day shall be entitled to vote.

If no record date is fixed:

The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held;

In order that the Corporation may determine the shareholders entitled to consent to corporate action in writing without a meeting or request a special meeting of the shareholders, the Board of Directors shall fix a record date, which record date shall not precede the date upon which the resolution fixing such record date is adopted by the Board of Directors. Any shareholder of record seeking to have the shareholders authorize or take corporate action by written consent or request a special meeting of the shareholders shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in no event later than 28 days after the date on which such request is received, adopt a resolution fixing the record date; and

The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for more than forty-five (45) days.

Section 2.11 Advance Notice of Shareholder Proposals and Director Nominations. Shareholders may nominate one or more persons for election as directors at a meeting of shareholder or propose business to be brought before a meeting of shareholders, or both, only if such shareholder has given timely notice in proper written form of such shareholder's intent to make a nomination or nominations or to propose such business. To be timely a shareholder's notice must be received by the Secretary of the Corporation not later than 60 days prior to such meeting; provided, however, that in the event less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which such notice of the date of the meeting was mailed or such public disclosure was made. To be in proper written form a shareholder's notice to the Secretary shall set forth: (1) the name

and address of the shareholder who intends to make the nominations or propose the business and, as the case may be, of the person or persons to be nominated or of the business to be proposed; (2) a representation that the shareholder is a holder of record of stock of the Corporation that intends to vote such stock at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (3) if applicable, a description of all arrangements or understandings between the shareholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (4) such other information regarding each nominee and each matter of business to be proposed by such shareholders as would be required to be included in a proxy statement filed pursuant to the Securities Exchange Act of 1934 had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the Board of Directors of the Corporation; and (5) if applicable, the consent of each nominee as director of the Corporation if so elected. The chairman of a meeting of shareholders may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

Article 3.

- BOARD OF DIRECTORS

Section 3.01 Powers. Subject to any limitations in the Restated Articles of Incorporation or these Amended and Restated Bylaws and to any provision of the California Corporations Code requiring shareholder authorization or approval for a particular action, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by, or under the direction of, the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other person provided that the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised, under the ultimate direction of the Board of Directors.

Section 3.02 Number and Qualification of Directors. So long as this Corporation has two (2) or less shareholders, the authorized number of directors of this Corporation shall be two (2). At such time as this Corporation has three (3) or more shareholders, the number of authorized directors of this Corporation shall be not less than seven (7) nor more than thirteen (13), the exact number of directors to be fixed from time to time within such range by a duly adopted resolution of the Board of Directors or shareholders.

Directors shall hold office until the next annual meeting of shareholders and until their respective successors are elected. If any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. Directors need not be shareholders.

Section 3.03 Regular Meetings. A regular annual meeting of the Board of Directors shall be held without other notice than this Bylaw provision immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide for other regular meetings from time to time by resolution.

Section 3.04 Special Meetings. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board, or the President or any Vice President, or the Secretary or any two (2) directors. Written notice of the time and place of all special meetings of the Board of Directors shall be delivered personally or by telephone or telegraph to each director at least forty-eight (48) hours before the meeting, or sent to each director by first-class mail, postage prepaid, at least four (4) days before the meeting. Such notice need not specify the purpose of the meeting. Notice of any meeting of the Board of Directors need not be given to any director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting prior thereto or at its commencement, the lack of notice to such director.

Section 3.05 Place of Meetings. Meetings of the Board of Directors may be held at any place within or without the State of California, which has been designated in the notice, or if not stated in the notice or there is no notice, the principal executive office of the Corporation or as designated by the resolution duly adopted by the Board of Directors.

Section 3.06 Participation by Telephone. Members of the Board of Directors may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

Section 3.07 Quorum. A quorum at all meetings of the Board of Directors shall be a majority of the authorized directors. In the absence of a quorum a majority of the directors present may adjourn any meeting to another time and place. If a meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the reconvened meeting to the directors who were not present at the time of adjournment.

Section 3.08 Action at Meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 3.09 Waiver of Notice. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 3.10 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

Section 3.11 Removal. The Board of Directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or who has been convicted of a felony.

The entire Board of Directors or any individual director may be removed from office without cause by a vote of shareholders holding a majority of the outstanding shares entitled to vote at an election of directors; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes cast were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

In the event an office of a director is so declared vacant or in case the Board or any one or more directors be so removed, new directors may be elected at the same meeting.

Section 3.12 Resignations. Any director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 3.13 Vacancies. Except for a vacancy created by the removal of a director, all vacancies in the Board of Directors, whether caused by resignation, death or otherwise, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected at an annual, regular or special meeting of the shareholders. Vacancies created by the removal of a director may be filled only by approval of the shareholders. The shareholders may elect a director at any time to fill any vacancy not filled by the directors. Any such election by written consent requires the consent of a majority of the outstanding shares entitled to vote.

Section 3.14 Compensation. No stated salary shall be paid directors, as such, for their services, but, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of such Board; provided that nothing herein contained shall be construed to preclude any

director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.15 Committees. The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two (2) or more directors, to serve at the pleasure of the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have all the authority of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to (a) the approval of any action requiring shareholders' approval or approval of the outstanding shares, (b) the filling of vacancies on the Board or any committee, (c) the fixing of compensation of directors for serving on the Board or a committee, (d) the adoption, amendment or repeal of Bylaws, (e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable, (f) a distribution to shareholders, except at a rate or in a periodic amount or within a price range determined by the Board, and (g) the appointment of other committees of the Board or the members thereof.

Article 4.

- OFFICERS

Section 4.01 Number and Term. The officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary and a Chief Financial Officer, all of which shall be chosen by the Board of Directors. The Corporation may also have a Chairman of the Board who shall be chosen by the Board of Directors. In addition, the Board of Directors may appoint such other officers as may be deemed expedient for the proper conduct of the business of the Corporation, each of whom shall have such authority and perform such duties as the Board of Directors may from time to time determine. The officers to be appointed by the Board of Directors shall be chosen annually at the regular meeting of the Board of Directors held after the annual meeting of shareholders and shall serve at the pleasure of the Board of Directors. If officers are not chosen at such meeting of the Board of Directors, they shall be chosen as soon thereafter as shall be convenient. Each officer shall hold office until his successor shall have been duly chosen or until his removal or resignation.

Section 4.02 Inability to Act. In the case of absence or inability to act of any officer of the Corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer, or any director or other person whom it may select.

Section 4.03 Removal and Resignation. Any officer chosen by the Board of Directors may be removed at any time, with or without cause, by the affirmative vote of a majority of all the members of the Board of Directors.

Any officer chosen by the Board of Directors may resign at any time by giving written notice of said resignation to the Corporation. Unless a different time is specified therein, such resignation shall be effective upon its receipt by the Chairman of the Board, the President, the Secretary or the Board of Directors.

Section 4.04 Vacancies. A vacancy in any office because of any cause may be filled by the Board of Directors for the unexpired portion of the term.

Section 4.05 Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board.

Section 4.06 President. The President shall be the general manager and chief executive officer of the Corporation, subject to the control of the Board of Directors, and as such shall preside at all meetings of shareholders, shall have general supervision of the affairs of the Corporation, shall sign or countersign or authorize another officer to sign all certificates, contracts, and other instruments of the Corporation as authorized by the Board of Directors, shall make reports to the Board of Directors and shareholders, and shall perform all such other duties as are incident to such office or are properly required by the Board of Directors.

Section 4.07 Vice President. In the absence of the President, or in the event of such officer's death, disability or refusal to act, the Vice President, or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their selection, or in the absence of any such designation, then in the order of their selection, shall perform the duties of President, and when so acting, shall have all the powers and be subject to all restrictions upon the President. Each Vice President shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 4.08 Secretary. The Secretary shall see that notices for all meetings are given in accordance with the provisions of these Bylaws and as required by law, shall keep minutes of all meetings, shall have charge of the seal and the corporate books, and shall make such reports and perform such other duties as are incident to such office, or as are properly required by the President or by the Board of Directors.

The Assistant Secretary or the Assistant Secretaries, in the order of their seniority, shall, in the absence or disability of the Secretary, or in the event of such officer's refusal to act, perform the duties and exercise the powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 4.09 Chief Financial Officer. The Chief Financial Officer may also be designated by the alternate title of "Treasurer." The Chief Financial Officer shall have

custody of all moneys and securities of the Corporation and shall keep regular books of account. Such officer shall disburse the funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors from time to time as may be required of such officer, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation. Such officer shall perform all duties incident to such office or which are properly required by the President or by the Board of Directors.

The Assistant Chief Financial Officer or the Assistant Chief Financial Officers, in the order of their seniority, shall, in the absence or disability of the Chief Financial Officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 4.10 Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the Corporation.

Section 4.11 Officers Holding More than One Office. Any two or more offices may be held by the same person.

Section 4.12 Approval of Loans to Directors and Officers. The Corporation may, upon the approval of the Board of Directors alone, make loans of money or property to, or guarantee the obligations of, any director or officer of the Corporation or its parent or subsidiary, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the Board of Directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the Corporation, (ii) the Corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the California Corporations Code) on the date of approval by the Board of Directors, and (iii) the approval of the Board of Directors is by a vote sufficient without counting the vote of any interested director or directors.

Article 5.

- MISCELLANEOUS

Section 5.01 Record Date and Closing of Stock Books. The Board of Directors may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any meeting of shareholders or entitled to receive payment of any dividend or distribution, or any allotment of rights, or to exercise rights in respect to any other lawful action. The record date so fixed shall not be more than sixty (60) nor less than ten (10) days prior to the date of the meeting or event for the purposes of which it is fixed. When a record date is so fixed, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be,

notwithstanding any transfer of any shares on the books of the Corporation after the record date.

The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of a period of not more than sixty (60) days prior to the date of a shareholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion or exchange of shares.

Section 5.02 Certificates. Certificates of stock shall be issued in numerical order and each shareholder shall be entitled to a certificate signed in the name of the Corporation by the Chairman of the Board or the President or a Vice President, and the Chief Financial Officer, the Secretary or an Assistant Secretary, certifying to the number of shares owned by such shareholder. Any or all of the signatures on the certificate may be facsimile. Prior to the due presentment for registration of transfer in the stock transfer book of the Corporation, the registered owner shall be treated as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner, except as expressly provided otherwise by the laws of the State of California.

Section 5.03 Representation of Shares in Other Corporations. Shares of other corporations standing in the name of this Corporation may be voted or represented and all incidents thereto may be exercised on behalf of the Corporation by the Chairman of the Board, the President or any Vice President and the Chief Financial Officer or the Secretary or an Assistant Secretary.

Section 5.04 Fiscal Year. The fiscal year of the Corporation shall end on the last Saturday of July.

Section 5.05 Annual Reports. The Annual Report to shareholders, described in the California Corporations Code, is expressly waived and dispensed with.

Section 5.06 Amendments. Bylaws may be adopted, amended, or repealed by the vote or the written consent of shareholders entitled to exercise a majority of the voting power of the Corporation. Subject to the right of shareholders to adopt, amend, or repeal Bylaws, Bylaws may be adopted, amended, or repealed by the Board of Directors, except that a Bylaw amendment thereof changing the authorized number of directors may be adopted by the Board of Directors only if these Bylaws permit an indefinite number of directors and the Bylaw or amendment thereof adopted by the Board of Directors changes the authorized number of directors within the limits specified in these Bylaws.

Section 5.07 Indemnification of Corporate Agents.

(a) The Corporation shall indemnify each of its agents against expenses, judgments, fines, settlements and other amounts, actually and reasonably incurred by such person by reason of such person's having been made or having threatened to be made a party to a proceeding to the fullest extent permissible by the

provisions of Section 317 of the California Corporations Code. The terms "agent," "proceeding" and "expenses" made in this Section 7 shall have the same meaning as such terms in said Section 317.

(b) Expenses reasonably incurred by an agent of the Corporation in defending a civil or criminal action, suit or proceeding by reason of the fact that he or she is or was an agent of the Corporation (or was serving at the Corporation's request as a director or officer of another corporation) shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such agent to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized by relevant sections of the General Corporation Law of California.

(c) Notwithstanding the foregoing, the Corporation shall not be required to advance such expenses to an agent who is party to an action, suit or proceeding brought by the Corporation and approved by a majority of the Board which alleges willful misappropriation of corporate assets by such agent, wrongful disclosure of confidential information, or any other willful and deliberate breach in bad faith of such agent's duty to the Corporation or its stockholders.

Exhibit 10.2

**CISCO SYSTEMS, INC.
1996 STOCK INCENTIVE PLAN**

AS AMENDED AND RESTATED EFFECTIVE SEPTEMBER 15, 1998

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 1996 Stock Incentive Plan is intended to promote the interests of Cisco Systems, Inc., a California corporation, by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation.

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

II. STRUCTURE OF THE PLAN

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

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

(ii) the Automatic Option Grant Program under which eligible non-employee Board members shall automatically receive option grants at periodic intervals to purchase shares of Common Stock.

B. The provisions of Articles One and Four shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Primary Committee shall have sole and exclusive authority to administer the Discretionary Option Grant Program with respect to Section 16 Insiders.

B. Administration of the Discretionary Option Grant Program with respect to all other persons eligible to participate in that program may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer that program with respect to all such persons. The members of the Secondary Committee may be Board members who are Employees eligible to receive discretionary option grants under the Plan or any other stock option, stock appreciation, stock bonus or other stock plan of the Corporation (or any Parent or Subsidiary).

C. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

D. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant Program and to make such determinations under, and issue such interpretations of, the provisions of such programs and any outstanding options thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant Program under its jurisdiction or any option or stock issuance thereunder.

E. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants under the Plan.

F. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to any option grants made under that program.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant Program are as follows:

- (i) Employees,
- (ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and
- (iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority to determine which eligible persons are to receive option grants under the Discretionary Option Grant Program, the time or times when such option grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding.

C. The individuals who shall be eligible to participate in the Automatic Option Grant Program shall be limited to (i) those individuals serving as non-employee Board members on the Plan Effective Date, (ii) those individuals who first become non-employee Board members on or after the Plan Effective Date, whether through appointment by the Board or election by the Corporation's shareholders, and (iii) those individuals who continue to serve as non-employee Board members at one or more Annual Shareholders Meetings held after the Plan Effective Date. A non-employee Board member who has previously been in the employ of the Corporation (or any Parent or Subsidiary) shall not be eligible to receive an option grant under the Automatic Option Grant Program at the time he or she first becomes a non-employee Board member, but shall be eligible to receive periodic option grants under the Automatic Option Grant Program while he or she continues to serve as a non-employee Board member.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock reserved for issuance over the term of the Plan shall not exceed 297,404,248 shares, subject to the automatic share increases described in Paragraph V.B. below. Such share reserve consists of the number of shares of Common Stock transferred from the Predecessor Plan, as of the Plan Effective Date (154,881,225 shares), plus the number of shares added to the reserve in the automatic share increases that occurred in December 1996 and December 1997 (142,523,023 shares). These share numbers reflect both (i) the three (3)-for-two (2) split of Common Stock effected on December 16, 1997 and (ii) the three (3)-for-two (2) split of Common Stock effected on September 15, 1998.

B. The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of fiscal December each calendar year, beginning with fiscal December in calendar year 1996 and continuing through fiscal December in calendar year 2001, by a number of shares equal to four and three-quarters percent (4.75%) of the total number of shares of Common Stock outstanding on the last trading day in the immediately preceding fiscal November, but in no event shall any such annual increase exceed 120,000,000 shares (as adjusted for both (i) the three (3)-for-two (2) split of Common Stock effected on December 16, 1997 and (ii) the three (3)-for-two (2) split of Common Stock effected on September 15, 1998).

C. No one person participating in the Plan may receive stock options or separately exercisable stock appreciation rights for more than 2,000,000 shares of Common Stock in the aggregate per calendar year.

4.

D. Shares of Common Stock subject to outstanding options (including options incorporated into this Plan from the Predecessor Plan) shall be available for subsequent issuance under the Plan to the extent those options expire or terminate for any reason prior to exercise in full. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants under the Plan. However, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance. Shares of Common Stock underlying one or more stock appreciation rights exercised under Section IV of Article Two of the Plan shall NOT be available for subsequent issuance under the Plan.

E. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities for which any one person may be granted stock options or separately exercisable stock appreciation rights in the aggregate under the Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, unless the Plan Administrator determines otherwise, (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan and (v) the number and/or class of securities and price per share in effect under each outstanding option incorporated into this Plan from the Predecessor Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.
2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Four and the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

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

B. EXERCISE AND TERM OF OPTIONS. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of nine (9) years measured from the option grant date.

C. EFFECT OF TERMINATION OF SERVICE.

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

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

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

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

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

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

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

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

E. SHAREHOLDER RIGHTS. The holder of an option shall have no shareholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

F. REPURCHASE RIGHTS. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

G. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the Optionee's death. However, a Non-Statutory Option may, in connection with the Optionee's estate plan, be assigned in whole or in part during the Optionee's lifetime to one or more members of the Optionee's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Four shall be applicable to Incentive Options. Options designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

C. 10% SHAREHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Shareholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. In the event of any Corporate Transaction, each outstanding option shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof), (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. All outstanding repurchase rights shall also terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments to reflect such Corporate Transaction shall also be made to (i) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted stock options or separately exercisable stock appreciation rights under the Plan per calendar year.

E. The Plan Administrator shall have full power and authority to grant options under the Discretionary Option Grant Program which will automatically accelerate in the event the Optionee's Service subsequently terminates by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those options are assumed or replaced and do not otherwise accelerate. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate, and the shares subject to those terminated repurchase rights shall accordingly vest in full.

F. The Plan Administrator shall have full power and authority to grant options under the Discretionary Option Grant Program which will automatically accelerate in the event the Optionee's Service subsequently terminates by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control. Each option so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate, and the shares subject to those terminated repurchase rights shall accordingly vest in full.

G. The portion of any Incentive Option accelerated in connection with a Corporate Transaction or Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

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

IV. STOCK APPRECIATION RIGHTS

A. The Plan Administrator shall have full power and authority, exercisable in its sole discretion, to grant to selected Optionees or other individuals eligible to receive option grants under the Discretionary Option Grant Program stock appreciation rights.

B. Three types of stock appreciation rights shall be authorized for issuance under the Plan: (i) tandem stock appreciation rights ("Tandem Rights"), (ii) stand-alone stock appreciation rights ("Stand-alone Rights") and (iii) limited stock appreciation rights ("Limited Rights").

C. The following terms and conditions shall govern the grant and exercise of Tandem Rights under this Article Two.

1. One or more Optionees may be granted a Tandem Right, exercisable upon such terms and conditions as the Plan Administrator may establish, to elect between the exercise of the underlying Article Two stock option for shares of Common Stock or the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate exercise price payable for such vested shares.

2. No such option surrender shall be effective unless it is approved by the Plan Administrator, either at the time of the actual option surrender or at any earlier time. If the surrender is so approved, then the distribution to which the Optionee shall accordingly become entitled under this Section V may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

3. If the surrender of an option is not approved by the Plan Administrator, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the later of
(i) five (5) business days after the receipt of the rejection notice or (ii) the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised more than nine (9) years after the date of the option grant.

D. The following terms and conditions shall govern the grant and exercise of Stand-alone Rights under this Article Two:

1. One or more individuals eligible to participate in the Discretionary Option Grant Program may be granted a Stand-alone Right not tied to any underlying option under this Discretionary Option Grant Program. The Stand-alone Right shall cover a specified number of underlying shares of Common Stock and shall be exercisable upon such terms and conditions as the Plan Administrator may establish. Upon exercise of the Stand-alone Right, the holder shall be entitled to receive a distribution from the Corporation in an amount equal to the excess of (i) the aggregate Fair Market Value (on the exercise date) of the shares of Common Stock underlying the exercised right over (ii) the aggregate base price in effect for those shares.

2. The number of shares of Common Stock underlying each Stand-alone Right and the base price in effect for those shares shall be determined by the Plan Administrator in its sole discretion at the time the Stand-alone Right is granted. In no event, however, may the base price per share be less than the Fair Market Value per underlying share of Common Stock on the grant date.

3. The distribution with respect to an exercised Stand-alone Right may be made in shares of Common Stock valued at Fair Market Value on the exercise date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

E. The following terms and conditions shall govern the grant and exercise of Limited Rights under this Article Two:

1. One or more Section 16 Insiders may, in the Plan Administrator's sole discretion, be granted Limited Rights with respect to their outstanding options under this Article Two.

2. Upon the occurrence of a Hostile Take-Over, the Section 16 Insider shall have the unconditional right (exercisable for a thirty (30)-day period following such Hostile Take-Over) to surrender each option with such a Limited Right to the Corporation, to the extent the option is at the time exercisable for fully vested shares of Common Stock. The Section 16 Insider shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the vested shares of Common Stock at the time subject to each surrendered option (or surrendered portion of such option) over (ii) the aggregate exercise price payable for such vested shares. Such cash distribution shall be made within five (5) days following the option surrender date.

3. The Plan Administrator shall pre-approve, at the time such Limited Right is granted, the subsequent exercise of that right in accordance with the terms of the grant and the provisions of this Section IV. No additional approval of the Plan Administrator or the Board shall be required at the time of the actual option surrender and cash distribution. Any unsurrendered portion of the option shall continue to remain outstanding and become exercisable in accordance with the terms of the instrument evidencing such grant.

F. The shares of Common Stock underlying any stock appreciation rights exercised under this Section IV shall NOT be available for subsequent issuance under the Plan.

ARTICLE THREE

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. GRANT DATES. Option grants shall be made pursuant to this September 15, 1998 restatement on the dates specified below:

1. Each individual who is first elected or appointed as a non-employee Board member on or after the date of the 1998 Annual Shareholders Meeting shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase 20,000 shares of Common Stock, provided that individual has not previously been in the employ of the Corporation or any Parent or Subsidiary.
2. On the date of each Annual Shareholders Meeting, beginning with the 1998 Annual Shareholders Meeting, each individual who is re-elected to serve as an Eligible Director shall automatically be granted a Non-Statutory Option to purchase 10,000 shares of Common Stock, provided such individual has served as a non-employee Board member for at least six (6) months. There shall be no limit on the number of such 10,000-share option grants any one Eligible Director may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the Corporation (or any Parent or Subsidiary) shall be eligible to receive one or more such annual option grants over their period of continued Board service.

B. EXERCISE PRICE.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.
2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. OPTION TERM. Each option shall have a maximum term equal to the lesser of (i) nine (9) years measured from the option grant date or (ii) twelve (12) months following termination of Board service.

D. EXERCISE AND VESTING OF OPTIONS. Each option shall be immediately exercisable for any or all of the option shares. However, any shares purchased under the option shall be subject to repurchase by the Corporation, at the exercise price paid per share, upon the Optionee's cessation of Board service prior to vesting in those shares. Each initial 20,000-share grant shall vest, and the Corporation's repurchase right shall lapse in four (4) successive equal annual installments over the Optionee's period of Board service, with the first such installment to vest upon the completion of one (1) year of Board service measured from the automatic grant date. Each annual 10,000-share grant shall vest, and the Corporation's repurchase right shall lapse, in two (2) successive equal annual installments over the optionee's period of Board service measured from the automatic grant date.

E. TERMINATION OF BOARD SERVICE. The following provisions shall govern the exercise of any options held by the Optionee upon his or her cessation of Board service:

(i) The Optionee (or, in the event of Optionee's death, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution) shall have a twelve (12)-month period following the date of such cessation of Board service in which to exercise each such option.

(ii) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board service.

(iii) Should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for all or any portion of those shares as fully-vested shares of Common Stock.

(iv) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve (12)-month exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason other than death or Permanent Disability, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL/ HOSTILE TAKE-OVER

A. In the event of any Corporate Transaction, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, each automatic option grant shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

B. In connection with any Change in Control, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. Each such option shall remain exercisable for such fully-vested option shares until the expiration or sooner termination of the option term or the surrender of the option in connection with a Hostile Take-Over.

C. Upon the occurrence of a Hostile Take-Over, the Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each of his or her outstanding automatic option grants. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the Optionee is otherwise at the time vested in those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation. This provision of the Automatic Option Grant Program shall constitute advance approval by the Board of any subsequent surrender of the option in accordance with the provisions of this

Section II.C, and no additional approval of the Board or any Plan Administrator shall accordingly be required at the time of the actual option surrender and cash distribution.

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

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

III. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE FOUR

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee to pay the option exercise price under the Discretionary Option Grant Program by delivering a full-recourse, interest bearing promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee exceed the sum of (i) the aggregate option exercise price payable for the purchased shares plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee in connection with the option exercise or share purchase.

II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options under the Discretionary Option Grant Program with the right to use shares of Common Stock in satisfaction of all or part of the Taxes incurred by such holders in connection with the exercise of their options. Such right may be provided to any such holder in either or both of the following formats:

Stock Withholding: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

Stock Delivery: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise triggering the Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

III. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan and each of the equity incentive programs thereunder shall become effective immediately upon the approval of the Corporation's shareholders at the 1996 Annual Meeting. Options may be granted under the Plan at any time on or after the date of such shareholder approval. If such shareholder approval is not obtained, then this Plan shall not become effective, and no options shall be granted and no shares shall be issued under the Plan.

B. The Plan shall serve as the successor to the Predecessor Plan, and no further option grants shall be made under the Predecessor Plan after this Plan is approved by the shareholders at the 1996 Annual Meeting. All options outstanding under the Predecessor Plan at the time of such shareholder approval shall be incorporated into the Plan at that time and shall be treated as outstanding options under the Plan. However, each outstanding option so incorporated shall continue to be governed solely by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of Common Stock.

C. One or more provisions of the Plan, including (without limitation) the option/vesting acceleration provisions of Article Two relating to Corporate Transactions and Changes in Control, may, in the Plan Administrator's discretion, be extended to one or more options incorporated from the Predecessor Plan which do not otherwise contain such provisions.

D. The Plan shall terminate upon the earliest of (i) December 31, 2006, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iii) the termination of all outstanding options in connection with a Corporate Transaction. Upon such plan termination, all outstanding option grants shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants.

IV. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options at the time outstanding under the Plan unless the Optionee consents to such amendment or modification. In addition, certain amendments may require shareholder approval in accordance with applicable laws and regulations.

B. The Plan was amended by the Board on July 29, 1998 in order to extend the automatic share increase provisions of the Plan for an additional three (3)-year through fiscal December in calendar year 2001. Such amendment, however, is subject to shareholder approval at the 1998 Annual Meeting and will not be implemented unless such shareholder approval is obtained.

C. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant Program that are in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under that program shall be held in escrow until there is obtained shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such shareholder approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

V. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

VI. REGULATORY APPROVALS

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

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

VII. NO EMPLOYMENT/SERVICE RIGHTS

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

APPENDIX

The following definitions shall be in effect under the Plan:

A. AUTOMATIC OPTION GRANT PROGRAM shall mean the automatic option grant program in effect under the Plan.

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

C. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than thirty-five percent (35%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept, or

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

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. COMMON STOCK shall mean the Corporation's common stock.

F. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

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

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

G. CORPORATION shall mean Cisco Systems, Inc., a California corporation, and its successors.

H. DISCRETIONARY OPTION GRANT PROGRAM shall mean the

discretionary option grant program in effect under the Plan.

I. ELIGIBLE DIRECTOR shall mean a non-employee Board member eligible to participate in the Automatic Option Grant Program in accordance with the eligibility provisions of Article One.

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

K. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

L. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

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

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

M. HOSTILE TAKE-OVER shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than thirty-five percent (35%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept.

N. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

O. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

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

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her level of responsibility, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty

(50) miles, provided and only if such change, reduction or relocation is effected without the individual's consent.

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

Q. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

R. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

S. OPTIONEE shall mean any person to whom an option is granted under the Discretionary Option Grant or Automatic Option Grant Program.

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

U. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of the Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

V. PLAN shall mean the Corporation's 1996 Stock Incentive Plan, as set forth in this document.

W. PLAN ADMINISTRATOR shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant Program with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

X. PREDECESSOR PLAN shall mean the Corporation's pre-existing 1987 Stock Option Plan in effect immediately prior to the Plan Effective Date hereunder.

Y. PRIMARY COMMITTEE shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant Program with respect to Section 16 Insiders.

Z. SECONDARY COMMITTEE shall mean a committee of two (2) or more Board members appointed by the Board to administer the Discretionary Option Grant Program with respect to eligible persons other than Section 16 Insiders.

AA. SECTION 16 INSIDER shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

BB. SERVICE shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

CC. STOCK EXCHANGE shall mean either the American Stock Exchange or the New York Stock Exchange.

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

EE. TAKE-OVER PRICE shall mean the greater of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Take-Over. However, if the surrendered option is an Incentive Option, the Take-Over Price shall not exceed the clause (i) price per share.

FF. TAXES shall mean the Federal, state and local income and employment tax liabilities incurred by the holder of Non-Statutory Options or unvested shares of Common Stock in connection with the exercise of those options or the vesting of those shares.

GG. 10% SHAREHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock of Cisco Systems, Inc. (the "Corporation"):

Optionee: _____ Grant
Date: _____ Vesting Commencement
Date: _____ Exercise Price: \$ _____ per share Number of
Option Shares: _____ shares Expiration Date: _____
Type of Option: ____ Incentive Stock Option ____ Non-Statutory Stock Option

Exercise Schedule: The Option shall become exercisable with respect to twenty five percent (25%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and shall become exercisable for the balance of the Option Shares in thirty-six (36) successive equal monthly installments upon Optionee's completion of each additional month of Service over the thirty-six (36) month period measured from the first anniversary of the Vesting Commencement Date. In no event shall the Option become exercisable for any additional Option Shares after Optionee's cessation of Service.

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

Optionee understands and agrees that the Option is granted subject to and in accordance with the terms of the Cisco Systems, Inc. 1996 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto as Exhibit A.

Optionee hereby acknowledges receipt of a copy of the official prospectus for the Plan in the form attached hereto as Exhibit B. A copy of the Plan is available upon request made to the Corporate Secretary at the Corporation's principal offices.

No Employment or Service Contract. Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

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

DATED: _____, 199__

CISCO SYSTEMS, INC.

By:

Title:

OPTIONEE

Address:

ATTACHMENTS

EXHIBIT A - STOCK OPTION AGREEMENT

EXHIBIT B - PLAN SUMMARY AND PROSPECTUS

EXHIBIT A

STOCK OPTION AGREEMENT

EXHIBIT B

PLAN SUMMARY AND PROSPECTUS

**CISCO SYSTEMS, INC.
STOCK OPTION AGREEMENT**

RECITALS

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

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

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

NOW, THEREFORE, it is hereby agreed as follows:

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

2. **OPTION TERM.** This option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5 or 6.

3. **LIMITED TRANSFERABILITY.** This option shall be neither transferable or assignable by Optionee other than by will or by the laws of descent and distribution following Optionee's death and may be exercised only by Optionee during his or her lifetime. However, if this option is designated Non-Statutory Option in the Grant Notice, then this option may, in connection with the Optionee's estate plan, be assigned in whole or in part during Optionee's lifetime to one or more members of the Optionee's immediate family or to a trust established for the exclusive benefit of one or more such family members. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Corporation may deem appropriate.

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

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

(i) Should Optionee cease to remain in Service for any reason (other than death, Permanent Disability or Misconduct) while this option is outstanding, then the period during which this option may be exercised shall be limited to the three (3)-month period measured from the date of such cessation of Service, but in no event shall this option be exercisable at any time after the Expiration Date.

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

(iii) Should Optionee cease Service by reason of Permanent Disability while this option is outstanding, then the period during which this option may be exercised shall be limited to the twelve (12)-month period measured from the date of such cessation of Service. In no event shall this option be exercisable at any time after the Expiration Date.

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

(v) Should Optionee's Service be terminated for Misconduct, then this option shall terminate immediately and cease to remain outstanding.

6. SPECIAL ACCELERATION OF OPTION.

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

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

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

(d) This option, to the extent outstanding at the time of a Change in Control but not otherwise fully exercisable, shall automatically accelerate so that this option shall, immediately prior to the effective date of the Change in Control, become exercisable for all of the Option Shares at the time subject to this option and may be exercised for any or all of those Option Shares as fully-vested shares of Common Stock. This option shall remain so exercisable until the Expiration Date or sooner termination of the option term.

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

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

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

9. MANNER OF EXERCISING OPTION.

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

(i) Execute and deliver to the Corporation a Notice of Exercise for the Option Shares for which the option is exercised.

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

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

(B) a promissory note payable to the Corporation, but only to the extent authorized by the Plan Administrator in accordance with Paragraph 13;

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

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

Except to the extent the sale and remittance procedure is utilized in connection with the option exercise, payment of the Exercise Price must accompany the Notice of Exercise delivered to the Corporation in connection with the option exercise.

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

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

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

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

10. COMPLIANCE WITH LAWS AND REGULATIONS.

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

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

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

12. **SALE OR TRANSFER OF SHARES.** Optionee shall provide the Corporation with notice of any transfer, sale, assignment, pledge or other disposition of the Option Shares. Such notice shall be furnished the Corporation within ten (10) business days following the transfer, sale, assignment, pledge or disposition and shall indicate the nature of the transaction and the number of Option Shares involved in that transaction.

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

14. **FINANCING.** The Plan Administrator may, in its absolute discretion and without any obligation to do so, permit Optionee to pay the Exercise Price for the purchased Option Shares by delivering a full-recourse promissory note payable to the Corporation. The terms of any such promissory note (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Plan Administrator in its sole discretion.

15. **CONSTRUCTION.** This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

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

17. EXCESS SHARES. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of shares of Common Stock which may without shareholder approval be issued under the Plan, then this option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock issuable under the Plan is obtained in accordance with the provisions of the Plan.

18. ADDITIONAL TERMS APPLICABLE TO AN INCENTIVE OPTION. In the event this option is designated an Incentive Option in the Grant Notice, the following terms and conditions shall also apply to the grant:

- This option shall cease to qualify for favorable tax treatment as an Incentive Option if (and to the extent) this option is exercised for one or more Option Shares: (A) more than three (3) months after the date Optionee ceases to be an Employee for any reason other than death or Permanent Disability or (B) more than twelve (12) months after the date Optionee ceases to be an Employee by reason of Permanent Disability.

- No installment under this option shall qualify for favorable tax treatment as an Incentive Option if (and to the extent) the aggregate Fair Market Value (determined at the Grant Date) of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value (determined as of the respective date or dates of grant) of the Common Stock or other securities for which this option or any other Incentive Options granted to Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate. Should such One Hundred Thousand Dollar (\$100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Statutory Option.

- Should the exercisability of this option be accelerated upon a Corporate Transaction or a Change in Control, then this option shall qualify for favorable tax treatment as an Incentive Option only to the extent the aggregate Fair Market Value (determined at the Grant Date) of the Common Stock for which this option first becomes exercisable in the calendar year in which the Corporate Transaction or Change in Control occurs does not, when added to the aggregate value (determined as of the respective date or dates of grant) of the Common Stock or other securities for which this option or one or more other Incentive Options granted to Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become

exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate. Should the applicable One Hundred Thousand Dollar (\$100,000) limitation be exceeded in the calendar year of such Corporate Transaction or Change in Control, the option may nevertheless be exercised for the excess shares in such calendar year as a Non-Statutory Option.

- Should Optionee hold, in addition to this option, one or more other options to purchase Common Stock which become exercisable for the first time in the same calendar year as this option, then the foregoing limitations on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

19. LEAVE OF ABSENCE. The following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

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

(b) If the option is designated as an Incentive Option in the Grant Notice, then the following additional provision shall apply:

- If the leave of absence continues for more than ninety (90) days, then this option shall automatically convert to a Non-Statutory Option under the Federal tax laws at the end of the three (3)-month period measured from the ninety-first (91st) day of such leave, unless the Optionee's reemployment rights are guaranteed by statute or by written agreement. Following any such conversion of the option, all subsequent exercises of such option, whether effected before or after Optionee's return to active Employee status, shall result in an immediate taxable event, and the Corporation shall be required to collect from Optionee all withholding taxes applicable to such exercise.

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

**EXHIBIT I
NOTICE OF EXERCISE**

I hereby notify Cisco Systems, Inc. (the "Corporation") that I elect to purchase shares of the Corporation's Common Stock (the "Purchased Shares") at the option exercise price of \$_____ per share (the "Exercise Price") pursuant to that certain option (the "Option") granted to me under the Corporation's 1996 Stock Incentive Plan on _____, 199__.

Concurrently with the delivery of this Exercise Notice to the Corporation, I shall hereby pay to the Corporation the Exercise Price for the Purchased Shares in accordance with the provisions of my agreement with the Corporation (or other documents) evidencing the Option and shall deliver whatever additional documents may be required by such agreement as a condition for exercise. Alternatively, I may utilize the special broker-dealer sale and remittance procedure specified in my agreement to effect payment of the Exercise Price.

_____, 199__
Date

Optionee

Address:

Print name in exact manner
it is to appear on the
stock certificate:

Address to which certificate
is to be sent, if different
from address above:

Social Security Number:

Employee Number:

APPENDIX

The following definitions shall be in effect under the Agreement:

A. AGREEMENT shall mean this Stock Option Agreement.

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

C. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than thirty-five percent (35%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept, or

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

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. COMMON STOCK shall mean the Corporation's common stock.

F. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

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

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

G. CORPORATION shall mean Cisco Systems, Inc., a California corporation.

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

I. EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 9 of the Agreement.

J. EXERCISE PRICE shall mean the exercise price per share as specified in the Grant Notice.

K. EXPIRATION DATE shall mean the date on which the option expires as specified in the Grant Notice.

L. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(iii) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

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

M. GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

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

O. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

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

Q. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

R. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

S. NOTICE OF EXERCISE shall mean the notice of exercise in the form attached hereto as Exhibit I.

T. OPTION SHARES shall mean the number of shares of Common Stock subject to the option as specified in the Grant Notice.

U. OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

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

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

X. PLAN shall mean the Corporation's 1996 Stock Incentive Plan.

Y. PLAN ADMINISTRATOR shall mean either the Board or a committee of the Board acting in its administrative capacity under the Plan.

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

AA. STOCK EXCHANGE shall mean the American Stock Exchange or the New York Stock Exchange.

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

A-4.

**ADDENDUM
TO
STOCK OPTION AGREEMENT**

The following provisions are hereby incorporated into, and are hereby made a part of, that certain Stock Option Agreement dated 2~ (the "Option Agreement") by and between Cisco Systems, Inc. (the "Corporation") and 1~ ("Optionee") evidencing the stock option (the "Option") granted on such date to Optionee under the terms of the Corporation's 1996 Stock Incentive Plan, and such provisions shall be effective immediately. All capitalized terms in this Addendum, to the extent not otherwise defined herein, shall have the meanings assigned to them in the Option Agreement.

**INVOLUNTARY TERMINATION FOLLOWING
CORPORATE TRANSACTION**

1. To the extent the Option is, in connection with a Corporate Transaction, to be assumed or replaced with a comparable option in accordance with Paragraph 6 of the Option Agreement, the Option shall not accelerate upon the occurrence of that Corporate Transaction, and the Option shall accordingly continue, over Optionee's period of Service after the Corporate Transaction, to become exercisable for the Option Shares in one or more installments in accordance with the provisions of the Option Agreement. However, immediately upon an Involuntary Termination of Optionee's Service within eighteen (18) months following such Corporate Transaction, the Option (or any replacement grant), to the extent outstanding at the time but not otherwise fully exercisable, shall automatically accelerate so that the Option shall become immediately exercisable for all the Option Shares at the time subject to the Option and may be exercised for any or all of those Option Shares as fully vested shares. The Option shall remain so exercisable until the earlier of (i) the Expiration Date or (ii) the expiration of the one (1)-year period measured from the date of the Involuntary Termination.

2. For purposes of this Addendum, an INVOLUNTARY TERMINATION shall mean the termination of Optionee's Service by reason of:

(i) Optionee's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(ii) Optionee's voluntary resignation following (A) a change in Optionee's position with the Corporation (or Parent or Subsidiary employing Optionee) which materially reduces Optionee's level of responsibility, (B) a reduction in Optionee's level of compensation (including base salary, fringe benefits and participation in any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of Optionee's place of employment by more than fifty (50) miles, provided and only if such

change, reduction or relocation is effected by the Corporation without Optionee's consent.

3. The provisions of Paragraph 1 of this Addendum shall govern the period for which the Option is to remain exercisable following the Involuntary Termination of Optionee's Service within eighteen (18) months after the Corporate Transaction and shall supersede any provisions to the contrary in Paragraph 5 of the Option Agreement.

IN WITNESS WHEREOF, Cisco Systems, Inc. has caused this Addendum to be executed by its duly-authorized officer, and Optionee has executed this Addendum, all as of the Effective Date specified below.

CISCO SYSTEMS, INC.

By:

Title:

1~, OPTIONEE

EFFECTIVE DATE: _____, 199__

2.

**ADDENDUM
TO
STOCK OPTION AGREEMENT**

The following provisions are hereby incorporated into, and are hereby made a part of, that certain Stock Option Agreement dated 2~ (the "Option Agreement") by and between Cisco Systems, Inc. (the "Corporation") and 1~ ("Optionee") evidencing the stock option (the "Option") granted on such date to Optionee under the terms of the Corporation's 1996 Stock Incentive Plan, and such provisions shall be effective immediately. All capitalized terms in this Addendum, to the extent not otherwise defined herein, shall have the meanings assigned to them in the Option Agreement.

LIMITED STOCK APPRECIATION RIGHT

1. Optionee is hereby granted a limited stock appreciation right exercisable upon the following terms and conditions:

- Optionee shall have the unconditional right (exercisable at any time during the thirty (30)-day period immediately following a Hostile Take-Over) to surrender the Option to the Corporation, to the extent the Option is at the time exercisable for vested shares of Common Stock. In return for the surrendered Option, Optionee shall receive a cash distribution from the Corporation in an amount equal to the excess of (A) the Take-Over Price of the shares of Common Stock which are at the time vested under the surrendered Option (or surrendered portion) over (B) the aggregate Exercise Price payable for such shares.

- To exercise this limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Corporation with written notice of the option surrender in which there is specified the number of Option Shares as to which the Option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of the Option Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date, and neither the approval of the Plan Administrator nor the consent of the Board shall be required in connection with such option surrender and cash distribution. Upon receipt of such cash distribution, the Option shall be cancelled with respect to the Option Shares for which the Option has been surrendered, and Optionee shall cease to have any further right to acquire those Option Shares under the Option Agreement. The Option shall, however, remain outstanding and exercisable for the balance of the Option Shares (if any) in accordance with the terms of the Option Agreement, and the Corporation shall issue a new stock option agreement (substantially in the same form of the surrendered Option Agreement) for those remaining Option Shares.

- In no event may this limited stock appreciation right be exercised when there is not a positive spread between the Fair Market Value of the Option Shares and the aggregate Exercise Price payable for such shares. This limited stock appreciation right shall in

all events terminate upon the expiration or sooner termination of the option term and may not be assigned or transferred by Optionee.

2. For purposes of this Addendum, the following definitions shall be in effect:

- A HOSTILE TAKE-OVER shall be deemed to occur in the event any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing more than thirty-five percent (35%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept.

- The TAKE-OVER PRICE per share shall be deemed to be equal to the greater of (A) the Fair Market Value per Option Share on the option surrender date or (B) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over. However, if the surrendered Option is designated as an Incentive Option in the Grant Notice, then the Take-Over Price shall not exceed the clause (A) price per share.

IN WITNESS WHEREOF, Cisco Systems, Inc. has caused this Addendum to be executed by its duly-authorized officer, and Optionee has executed this Addendum, all as of the Effective Date specified below.

CISCO SYSTEMS, INC.

By:

Title:

1~, OPTIONEE

EFFECTIVE DATE: _____, 199__

2.

INITIAL GRANT

**CISCO SYSTEMS, INC.
NOTICE OF GRANT OF NON-EMPLOYEE DIRECTOR
AUTOMATIC STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock of Cisco Systems, Inc. (the "Corporation"):

Optionee: _____

Grant Date: _____

Exercise Price: \$ _____ per share

Number of Option Shares: 20,000 shares

Expiration Date: _____

Type of Option: Non-Statutory Stock Option

Date Exercisable: Immediately Exercisable

Vesting Schedule: The Option Shares shall initially be unvested and subject to repurchase by the Corporation at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Corporation's repurchase right shall accordingly lapse with respect to, the Option Shares in a series of four (4) successive equal annual installments upon the Optionee's completion of each year of service as a member of the Corporation's Board of Directors (the "Board") over the four (4)-year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

Optionee understands and agrees that the Option is granted subject to and in accordance with the terms of the automatic option grant program under the Cisco Systems, Inc. 1996 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Automatic Stock Option Agreement attached hereto as Exhibit A.

Optionee hereby acknowledges receipt of a copy of the official prospectus for the Plan in the form attached hereto as Exhibit B. A copy of the Plan is available upon request made to the Corporate Secretary at the Corporation's principal offices.

REPURCHASE RIGHT. OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE CORPORATION, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE CORPORATION'S BOARD OF DIRECTORS PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

No Impairment of Rights. Nothing in this Notice or in the attached Automatic Stock Option Agreement or the Plan shall interfere with or otherwise restrict in any way the rights of the Corporation or the Corporation's shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

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

DATED: _____, 199__

CISCO SYSTEMS, INC.

By:

Title:

OPTIONEE

Address:

- ATTACHMENTS
EXHIBIT A - AUTOMATIC STOCK OPTION AGREEMENT
EXHIBIT B - PLAN SUMMARY AND PROSPECTUS

EXHIBIT A

AUTOMATIC STOCK OPTION AGREEMENT

EXHIBIT B

PLAN SUMMARY AND PROSPECTUS

ANNUAL GRANT

**CISCO SYSTEMS, INC.
NOTICE OF GRANT OF NON-EMPLOYEE DIRECTOR
AUTOMATIC STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock of Cisco Systems, Inc. (the "Corporation"):

Optionee: _____

Grant Date: _____

Exercise Price: \$ _____ per share

Number of Option Shares: 10,000 shares

Expiration Date: _____

Type of Option: Non-Statutory Stock Option

Date Exercisable: Immediately Exercisable

Vesting Schedule: The Option Shares shall initially be unvested and subject to repurchase by the Corporation at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Corporation's repurchase right shall accordingly lapse with respect to, the Option Shares in a series of two (2) successive equal annual installments upon Optionee's completion of each year of service as a member of the Corporation's Board of Directors (the "Board") over the two (2)-year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

Optionee understands and agrees that the Option is granted subject to and in accordance with the terms of the automatic option grant program under the Cisco Systems, Inc. 1996 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Automatic Stock Option Agreement attached hereto as Exhibit A.

Optionee hereby acknowledges receipt of a copy of the official prospectus for the Plan in the form attached hereto as Exhibit B. A copy of the Plan is available upon request made to the Corporate Secretary at the Corporation's principal offices.

REPURCHASE RIGHT. OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE CORPORATION, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE CORPORATION'S BOARD OF DIRECTORS PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

No Impairment of Rights. Nothing in this Notice or in the attached Automatic Stock Option Agreement or the Plan shall interfere with or otherwise restrict in any way the rights of the Corporation or the Corporation's shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

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

DATED: _____, 199__

CISCO SYSTEMS, INC.

By:

Title:

OPTIONEE

Address:

ATTACHMENTS

EXHIBIT A - AUTOMATIC STOCK OPTION AGREEMENT

EXHIBIT B - PLAN SUMMARY AND PROSPECTUS

EXHIBIT A

AUTOMATIC STOCK OPTION AGREEMENT

EXHIBIT B

PLAN SUMMARY AND PROSPECTUS

CISCO SYSTEMS, INC.
AUTOMATIC STOCK OPTION AGREEMENT

RECITALS

A. The Corporation has implemented an automatic option grant program under the Corporation's 1996 Stock Incentive Plan pursuant to which eligible non-employee members of the Board will automatically receive special option grants at designated intervals over their period of Board service in order to provide such individuals with a meaningful incentive to continue to serve as a member of the Board.

B. Optionee is an eligible non-employee Board member, and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the automatic grant of a stock option to purchase shares of the Corporation's Common Stock under the Plan.

C. The granted option is intended to be a non-statutory option which does not meet the requirements of Section 422 of the Internal Revenue Code.

D. All capitalized terms in this Agreement, to the extent not otherwise defined in the Agreement, shall have the meaning assigned to them in the attached Appendix.

NOW, THEREFORE, it is hereby agreed as follows:

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

2. **OPTION TERM.** This option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5, 6 or 7.

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

4. EXERCISABILITY/VESTING.

(a) This option shall be immediately exercisable for any or all of the Option Shares, whether or not the Option Shares are vested in accordance with the Vesting Schedule set forth in the Grant Notice, and shall remain so exercisable until the Expiration Date or the sooner termination of the option term under Paragraph 5, 6 or 7.

(b) Optionee shall, in accordance with the Vesting Schedule set forth in the Grant Notice, vest in the Option Shares in a series of installments over his or her period of Board service. Vesting in the Option Shares may be accelerated pursuant to the provisions of Paragraph 5, 6 or 7. In no event, however, shall any additional Option Shares vest following Optionee's cessation of service as a Board member.

5. CESSATION OF BOARD SERVICE. Should Optionee's service as a Board member cease while this option remains outstanding, then the option term specified in Paragraph 2 shall terminate (and this option shall cease to be outstanding) prior to the Expiration Date in accordance with the following provisions:

(i) Should Optionee cease to serve as a Board member for any reason (other than death or Permanent Disability) while holding this option, then the period for exercising this option shall be reduced to a twelve (12)-month period commencing with the date of such cessation of Board service, but in no event shall this option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this option may not be exercised in the aggregate for more than the number of Option Shares (if any) in which Optionee is vested on the date of his or her cessation of Board service. Upon the earlier of (i) the expiration of such twelve (12)-month period or (ii) the specified Expiration Date, the option shall terminate and cease to be exercisable with respect to any vested Option Shares for which the option has not been exercised.

(ii) Should Optionee die during the twelve (12)-month period following his or her cessation of Board service, then the personal representative of Optionee's estate or the person or persons to whom the option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this option for any or all of the Option Shares in which Optionee is vested at the time of Optionee's cessation of Board service (less any Option Shares purchased by Optionee after such cessation of Board service but prior to death). Such right of exercise shall terminate, and this option shall accordingly cease to be exercisable for such vested Option Shares, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date of the option term.

(iii) Should Optionee cease service as a Board member by reason of death or Permanent Disability, then all Option Shares at the time subject to this option

but not otherwise vested shall immediately vest in full so that Optionee (or the personal representative of Optionee's estate or the person or persons to whom the option is transferred upon Optionee's death) shall have the right to exercise this option for any or all of the Option Shares as fully-vested shares of Common Stock at any time prior to the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(iv) Upon Optionee's cessation of Board service for any reason other than death or Permanent Disability, this option shall immediately terminate and cease to be outstanding with respect to any and all Option Shares in which Optionee is not otherwise at that time vested in accordance with the normal Vesting Schedule set forth in the Grant Notice or the special vesting acceleration provisions of Paragraph 6 or 7 below.

6. CORPORATE TRANSACTION.

(a) In the event of a Corporate Transaction, all Option Shares at the time subject to this option but not otherwise vested shall automatically vest so that this option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to this option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, this option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

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

7. CHANGE IN CONTROL/HOSTILE TAKE-OVER.

(a) All Option Shares subject to this option at the time of a Change in Control but not otherwise vested shall automatically vest so that this option shall, immediately prior to the effective date of such Change in Control, become fully exercisable for all of the Option Shares at the time subject to this option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. This option shall remain exercisable for such fully-vested Option Shares until the earliest to occur of (i) the specified Expiration Date, (ii) the sooner termination of this option in accordance with Paragraph 5 or 6 or (iii) the surrender of this option under Paragraph 7(b).

(b) Optionee shall have an unconditional right (exercisable during the thirty (30)-day period immediately following the consummation of a Hostile Take-Over) to surrender this option to the Corporation in exchange for a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the Option Shares at the time subject to the surrendered option (whether or not those Option Shares are otherwise at the time vested) over (ii) the aggregate Exercise Price payable for such shares. This Paragraph 7(b) limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the option term and may not be assigned or transferred by Optionee.

(c) To exercise the Paragraph 7(b) limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Corporation with written notice of the option surrender in which there is specified the number of Option Shares as to which the option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of this Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date. Such option surrender and cash distribution has been pre-approved by the Corporation's shareholders in connection with their approval of the Plan, and no additional approval of the Plan Administrator or the Board shall be required at the time of the actual option surrender and cash distribution. Upon receipt of such cash distribution, this option shall be cancelled with respect to the shares subject to the surrendered option (or the surrendered portion), and Optionee shall cease to have any further right to acquire those Option Shares under this Agreement. The option shall, however, remain outstanding for the balance of the Option Shares (if any) in accordance with the terms and provisions of this Agreement, and the Corporation shall accordingly issue a new stock option agreement (substantially in the same form as this Agreement) for those remaining Option Shares.

8. ADJUSTMENT IN OPTION SHARES. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the number and/or class of securities subject to this option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder; provided, however, that the aggregate Exercise Price shall remain the same.

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

10. MANNER OF EXERCISING OPTION.

(a) In order to exercise this option for all or any part of the Option Shares for which the option is at the time exercisable, Optionee or, in the case of exercise after Optionee's death, Optionee's executor, administrator, heir or legatee, as the case may be, must take the following actions:

(i) To the extent the option is exercised for vested Option Shares, the Secretary of the Corporation shall be provided with written notice of the option exercise (the "Exercise Notice") in substantially the form of Exhibit I attached hereto, in which there is specified the number of vested Option Shares to be purchased under the exercised option. To the extent that the option is exercised for one or more unvested Option Shares, Optionee (or other person exercising the option) shall deliver to the Secretary of the Corporation a Purchase Agreement for those unvested Option Shares.

(ii) The Exercise Price for the purchased shares shall be paid in one or more of the following alternative forms:

- cash or check made payable to the Corporation's order; or

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

- to the extent the option is exercised for vested Option Shares, through a special sale and remittance procedure pursuant to which Optionee shall provide irrevocable written instructions (A) to a Corporation-designated brokerage firm to effect the immediate sale of the vested shares purchased under the option and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for those shares plus the applicable Federal, state and local income taxes required to be withheld by the Corporation by reason of such exercise and (B) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

(iii) Appropriate documentation evidencing the right to exercise this option shall be furnished the Corporation if the person or persons exercising the option is other than Optionee.

(iv) Appropriate arrangement must be made with the Corporation for the satisfaction of all Federal, state and local income tax withholding requirements applicable to the option exercise.

(b) Except to the extent the sale and remittance procedure specified above is utilized in connection with the exercise of the option for vested Option Shares, payment

of the Exercise Price for the purchased shares must accompany the Exercise Notice or Purchase Agreement delivered to the Corporation in connection with the option exercise.

(c) As soon as practical after the Exercise Date, the Corporation shall issue to or on behalf of Optionee (or any other person or persons exercising this option) a certificate or certificates representing the purchased Option Shares. To the extent any such Option Shares are unvested, the certificates for those Option Shares shall be endorsed with an appropriate legend evidencing the Corporation's repurchase rights and may be held in escrow with the Corporation until such shares vest.

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

11. **NO IMPAIRMENT OF RIGHTS.** This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, nothing in this Agreement shall in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Corporation or the shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

12. COMPLIANCE WITH LAWS AND REGULATIONS.

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

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

13. **SUCCESSORS AND ASSIGNS.** Except to the extent otherwise provided in Paragraph 3 or 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

14. **CONSTRUCTION/GOVERNING LAW.** This Agreement and the option evidenced hereby are made and granted pursuant to the automatic option grant program in effect under the Plan and are in all respects limited by and subject to the express terms and provisions of that

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

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

EXHIBIT I

NOTICE OF EXERCISE

I hereby notify Cisco Systems, Inc. (the "Corporation") that I elect to purchase _____ shares of the Corporation's Common Stock (the "Purchased Shares") at the option exercise price of \$_____ per share (the "Exercise Price") pursuant to that certain option (the "Option") granted to me pursuant to the automatic option grant program under the Corporation's 1996 Stock Incentive Plan on _____, 199__.

Concurrently with the delivery of this Exercise Notice to the Secretary of the Corporation, I shall hereby pay to the Corporation the Exercise Price for the Purchased Shares in accordance with the provisions of my agreement with the Corporation evidencing the Option and shall deliver whatever additional documents may be required by such agreement as a condition for exercise. Alternatively, I may utilize the special broker/dealer sale and remittance procedure specified in my agreement to effect payment of the Exercise Price for any Purchased Shares in which I am vested at the time of exercise.

_____, 199__
Date

Optionee

Address:

Print name in exact manner
it is to appear on the
stock certificate:
Address to which certificate
is to be sent, if different
from address above:

Social Security Number:

APPENDIX

The following definitions shall be in effect under the Agreement:

A. AGREEMENT shall mean this Automatic Stock Option Agreement.

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

C. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than thirty-five percent (35%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept, or

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

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. COMMON STOCK shall mean the Corporation's common stock.

F. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

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

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

G. CORPORATION shall mean Cisco Systems, Inc., a California corporation.

H. EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 10 of the Agreement.

I. EXERCISE PRICE shall mean the exercise price payable per share as specified in the Grant Notice.

J. EXPIRATION DATE shall mean the date on which the option term expires as specified in the Grant Notice.

K. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

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

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

L. GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

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

N. HOSTILE TAKE-OVER shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly

controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's shareholders which the Board does not recommend such shareholders to accept.

O. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

P. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

Q. OPTION SHARES shall mean the number of shares of Common Stock subject to the option.

R. OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

S. PERMANENT DISABILITY shall mean the inability of Optionee to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment which is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more.

T. PLAN shall mean the Corporation's 1996 Stock Incentive Plan.

U. PURCHASE AGREEMENT shall mean the stock purchase agreement (in form and substance satisfactory to the Corporation) which must be executed at the time the option is exercised for unvested Option Shares and which will accordingly (i) grant the Corporation the right to repurchase, at the Exercise Price, any and all of those Option Shares in which Optionee is not otherwise vested at the time of his or her cessation of service as a Board member and (ii) preclude the sale, transfer or other disposition of any of the Option Shares purchased under such agreement while those Option Shares remain subject to the repurchase right.

V. STOCK EXCHANGE shall mean the American Stock Exchange or the New York Stock Exchange.

W. TAKE-OVER PRICE shall mean the greater of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over.

X. VESTING SCHEDULE shall mean the vesting schedule specified in the Grant Notice, pursuant to which Optionee will vest in the Option Shares in one or more installments over his or her period of Board service, subject to acceleration in accordance with the provisions of the Agreement.

Exhibit 10.3

**CISCO SYSTEMS, INC.
1997 SUPPLEMENTAL STOCK INCENTIVE PLAN**

ARTICLE ONE

GENERAL

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

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

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

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

I. STRUCTURE OF THE PLAN

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

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

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

II. ADMINISTRATION OF THE PLAN

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

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

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

III. ELIGIBILITY

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

B. The Plan Administrator shall have full authority to determine

(i) with respect to the Option Grant Program, which eligible Employees are to receive option grants under the Plan, the time or times when the grants are to be made, the number of shares subject to each such grant, the time or times when each granted option is to become exercisable and the maximum term for which the option may remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive stock issuances, the time or times when such issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares. All options granted under the Plan shall be Non-Statutory Options.

IV. STOCK SUBJECT TO THE PLAN

A. Shares of Common Stock shall be available for issuance under the Plan and shall be drawn from either the Corporation's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock reserved for issuance over the term of the Plan shall be limited to 1,000,000 shares, subject to adjustment from time to time in accordance with the provisions of Section IV.C.

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

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

ARTICLE TWO

OPTION GRANT PROGRAM

I. OPTION TERMS

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

A. Exercise Price.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the grant date.

2. Full payment of the exercise price shall become immediately due upon exercise of the option and shall be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation in connection with such purchase and to (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

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

B. Term and Exercise of Options. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing such option. No option shall have a maximum term in excess of nine (9) years measured from the option grant date. During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable except for a transfer of the option effected by will or by the laws of inheritance following the Optionee's death.

C. Effect of Termination of Service.

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

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

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

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

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

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

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

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

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

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

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

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

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

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

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

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

ARTICLE THREE

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

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

A. PURCHASE PRICE.

1. The purchase price per share of Common Stock subject to direct issuance shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the issuance date.

2. Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. VESTING/ISSUANCE PROVISIONS.

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. Alternatively, the Plan Administrator may issue share right awards under the Stock Issuance Program which shall entitle the recipient to receive a specified number of shares of Common Stock upon the attainment of one or more performance goals established by the Plan Administrator. Upon the attainment of such performance goals, fully-vested shares of Common Stock shall be issued in satisfaction of those share right awards.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to his or her unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

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

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

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

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

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

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

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

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

III. SHARE ESCROW/LEGENDS

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

ARTICLE FOUR

MISCELLANEOUS

I. EFFECTIVE DATE AND TERM OF PLAN

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

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

II. AMENDMENT OF THE PLAN

The Board has complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever. However, no such amendment or modification shall adversely affect rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan, unless the affected Optionees or Participants consent to such amendment.

III. USE OF PROCEEDS

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

IV. REGULATORY APPROVALS

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

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

V. NO EMPLOYMENT/SERVICE RIGHTS

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

APPENDIX

The following definitions shall be in effect under the Plan:

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

B. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

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

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

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

D. COMMON STOCK shall mean the Corporation's common stock.

E. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

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

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

A-1.

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

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

H. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

I. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

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

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

J. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

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

- such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her duties or responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonuses under corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only

if such change, reduction or relocation is effected by the Corporation without the individual's consent.

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

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

M. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

N. OPTION GRANT PROGRAM shall mean the option grant program in effect under the Plan.

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

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

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

R. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of an individual to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

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

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

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

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

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

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

Y. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under the Plan.

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

CISCO SYSTEMS, INC.

1997 SUPPLEMENTAL PLAN STOCK OPTION AGREEMENT

RECITALS

- A. The Board has adopted the Plan for the purpose of providing additional incentive to selected Employees, consultants and other independent advisors to continue in the Service of the Corporation (or any Parent or Subsidiary).
- B. Optionee is to render valuable services to the Corporation (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Corporation's grant of an option to Optionee.
- C. All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix.

NOW, THEREFORE, it is hereby agreed as follows:

- 1. **GRANT OF OPTION.** The Corporation hereby grants to Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Grant Notice. The option is a Non-Statutory Option, and the Option Shares shall be purchasable under such option from time to time during the option term specified in Paragraph 2 at the Exercise Price.
- 2. **OPTION TERM.** This option shall have a term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5 or 6.
- 3. **LIMITED TRANSFERABILITY.** During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of inheritance following the Optionee's death.
- 4. **DATES OF EXERCISE.** This option shall become exercisable for the Option Shares in one or more installments as specified in the Grant Notice. As the option becomes exercisable for such installments, those installments shall accumulate and the option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the option term under Paragraph 5 or 6.
- 5. **CESSATION OF SERVICE.** The option term specified in Paragraph 2 shall terminate (and this option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

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

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

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

(d) Should Optionee's Service be terminated for Misconduct, then this option shall terminate immediately and cease to remain outstanding.

6. SPECIAL ACCELERATION OF OPTION.

(a) This option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully exercisable, shall automatically accelerate so that this option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable with respect to the total number of shares of Common Stock at the time subject to that option and may be exercised for all or any portion of those shares as fully-vested shares. However, an outstanding option under the Plan shall NOT so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, to be assumed by the successor corporation or parent thereof or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the option spread existing at the time of the Corporate Transaction (the excess of the Fair Market Value of the Option Shares for which the option is not otherwise at that time exercisable over the aggregate Exercise Price payable for those Option Shares) and provides for subsequent payout in accordance with the same exercise/vesting schedule applicable to such option.

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

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

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

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

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

9. MANNER OF EXERCISING OPTION.

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

(i) Execute and deliver to the Corporation a Notice of Exercise for the Option Shares for which the option is exercised.

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

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

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

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

Except to the extent the sale and remittance procedure is utilized in connection with the option exercise, payment of the Exercise Price must accompany the Notice of Exercise delivered to the Corporation in connection with the option exercise.

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

(iv) Make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state and local income and employment tax withholding requirements applicable to the option exercise.

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

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

10. COMPLIANCE WITH LAWS AND REGULATIONS.

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

(b) The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such

approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

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

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

13. **CONSTRUCTION.** This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

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

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

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

(b) Should Optionee resume active Employee status within sixty (60) days after the start date of the authorized leave, Optionee shall, for purposes of the exercise schedule set forth in the Grant Notice, receive Service credit for the entire period of such leave. If Optionee does not resume active Employee status within such sixty

(60)-day period, then no Service credit shall be given for the period of the leave.

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

EXHIBIT I

NOTICE OF EXERCISE

I hereby notify Cisco Systems, Inc. (the "Corporation") that I elect to purchase _____ shares of the Corporation's Common Stock (the "Purchased Shares") at the option exercise price of \$_____ per share (the "Exercise Price") pursuant to that certain option (the "Option") granted to me under the Corporation's 1997 Supplemental Stock Incentive Plan on _____, 199__.

Concurrently with the delivery of this Exercise Notice to the Corporation, I shall hereby pay to the Corporation the Exercise Price for the Purchased Shares in accordance with the provisions of my agreement with the Corporation (or other documents) evidencing the Option and shall deliver whatever additional documents may be required by such agreement as a condition for exercise. Alternatively, I may utilize the special broker-dealer sale and remittance procedure specified in my agreement to effect payment of the Exercise Price.

_____, 199__
Date

Optionee

Address:

Print name in exact manner
it is to appear on the
stock certificate:
Address to which certificate
is to be sent, if different
from address above:

Social Security Number:
Employee Number:

APPENDIX

The following definitions shall be in effect under the Agreement:

A. AGREEMENT shall mean this 1997 Supplemental Stock Option Agreement.

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

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

D. COMMON STOCK shall mean the Corporation's common stock.

E. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

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

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

F. CORPORATION shall mean Cisco Systems, Inc., a California corporation.

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

H. EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 9 of the Agreement.

I. EXERCISE PRICE shall mean the exercise price per share as specified in the Grant Notice.

J. EXPIRATION DATE shall mean the date on which the option expires as specified in the Grant Notice.

K. FAIR MARKET VALUE per share of Common Stock on any relevant date shall determined in accordance with the following provisions:

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

- If the Common Stock is at the time listed on any national securities exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on that exchange, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

L. GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

M. GRANT NOTICE shall mean the Notice of Grant of 1997 Supplemental Plan Stock Option accompanying the Agreement, pursuant to which Optionee has been informed of the basic terms of the option evidenced hereby.

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

O. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

P. NOTICE OF EXERCISE shall mean the notice of exercise in the form attached hereto as Exhibit I.

Q. OPTION SHARES shall mean the number of shares of Common Stock subject to the option as specified in the Grant Notice.

R. OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

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

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

U. PLAN shall mean the Corporation's 1997 Supplemental Stock Incentive Plan.

V. PLAN ADMINISTRATOR shall mean the committee of one or more Board members appointed by the Board to administer the Plan.

W. SERVICE shall mean the Optionee's performance of services on a periodic basis to the Corporation (or any Parent or Subsidiary) in the capacity of an Employee or a consultant or other independent advisor.

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

A-3.

EXHIBIT 10.12

CISCO SYSTEMS, INC.

**SENIOR MANAGEMENT INCENTIVE PLAN -
EXECUTIVE VICE PRESIDENT, VICE PRESIDENT & DIRECTOR
FY 1999**

I. INTRODUCTION

A. **THE OBJECTIVE OF THE SENIOR MANAGEMENT INCENTIVE PLAN** is to financially reward Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Directors and employees in Grades 13 and 14 for their contributions to the success and profitability of Cisco Systems, Inc.

B. **PARTICIPANTS:** This plan applies solely to Vice Presidents and Directors of Cisco Systems or participating Cisco subsidiaries in the following positions:

POSITION

Executive Vice President
Senior Vice President
Vice President
Director (excluding Sales Positions) Employees in Grades 13 and 14

Any exceptions to the above will need to be approved in writing by the President. The participant must be employed in a bonus eligible position on or before the first working day of the last fiscal quarter of Fiscal Year 1999 and must be employed on the last working day of that year to be eligible for an FY99 bonus. Participants may not be concurrently enrolled in any other bonus, sales or incentive plan. Participants in the Plan with less than one year of service will be eligible for a prorated bonus amount. In no event will any individual accrue any right or entitlement to a bonus under this Plan unless that individual is employed by Cisco Systems or a participating Cisco subsidiary on the last working day of Fiscal Year 1999.

C. **EFFECTIVE DATE:** The Plan is effective for the Fiscal Year 1999, beginning July 26, 1998 through July 31, 1999.

D. **CHANGES IN PLAN:** The Company presently has no plan to change the Senior Management Incentive Plan during the fiscal year. However, the Company reserves the right to modify the Senior Management Bonus Plan in total or in part, at any time. Any such change must be in writing and signed by the President. The President or plan designers reserve the right to interpret the plan document as needed.

E. **ENTIRE AGREEMENT:** This Plan is the entire agreement between Cisco Systems, Inc. and the employee regarding the subject matter of this Plan and supersedes all prior compensation or incentive plans or any written or verbal representations regarding the subject matter of this Plan.

II. BONUS PLAN ELEMENTS

A. **BASE SALARY** is determined by the participant's manager, on the Focal review date scheduled for either August 1, April 1, or October 1 of each year. The annual base salary in effect at the end of the Fiscal Year 1999 represents the basis for the bonus calculation.

B. BONUS TARGET PERCENTAGE is a percentage level of base salary determined by the position.

POSITION	BONUS %
EXECUTIVE VICE PRESIDENT	60%
SENIOR VICE PRESIDENT	60%
VICE PRESIDENT	50%
DIRECTOR (EXCLUDING SALES POSITIONS)	40%
GRADE 14	40%
GRADE 13	40%

C. INDIVIDUAL PERFORMANCE MULTIPLIER is based upon the manager's evaluation of performance and contribution for the fiscal year. This factor may range from 0.90 - 1.30. The assigned factor may also be a zero resulting in no bonus based on the manager's evaluation of performance and contribution. A written performance evaluation is required in conjunction with any assigned factor of zero.

Employees who were on a Written Warning, Performance Improvement Plan and/or performing at a level of "Not Satisfactory" (N), at any time during the fiscal year may receive a lower Individual Performance Multiplier resulting in a lower bonus. The assigned multiplier may also be a zero resulting in no bonus based on the manager's evaluation of performance and contribution. A written performance evaluation is required in conjunction with any assigned factor of zero.

D. COMPANY PERFORMANCE MULTIPLIER is based upon achieving an established worldwide Revenue target and a worldwide Profit Before Interest and Tax (PBIT) target per the current Plan. The PBIT achievement to target is more heavily weighted relative to the worldwide Revenue target. Typically, 80% of each objective must be achieved for any bonus to be paid. Maximum payout under the Plan is 200% or a multiplier of two. The applicable targets for Fiscal Year 1999 are approved by the Cisco Board of Directors within the first 90 days of each fiscal year.

COMPANY PERFORMANCE MULTIPLIER

	120%	0.90	1.10	1.30	1.90	2.00
	110%	0.85	1.00	1.10	1.60	1.90
REVENUE AS A	100%	0.80	0.90	1.00	1.30	1.60
% OF GOAL	90%	0.75	0.85	0.95	1.15	1.30
	80%	0.70	0.80	0.90	1.00	1.15
		80%	90%	100%	110%	120%

PBIT AS A % OF GOAL

EXAMPLE: COMPANY PERFORMANCE
 Actual Revenue Performance is 100% of goal
 Actual PBIT Performance is 110% of goal

COMPANY PERFORMANCE MULTIPLIER = 1.30

E. CUSTOMER SATISFACTION MULTIPLIER is based upon achievement of an overall worldwide customer satisfaction survey score. The multiplier may range from 0.95 - 1.20 based on the following criteria:

WORLDWIDE SATISFACTION SCORE	FACTOR
< 4.11	0.95
4.11 - 4.16	1.05
4.17 - 4.21	1.10
4.22+	1.20

F. COMPANY STRATEGIC PERFORMANCE MULTIPLIER measures Cisco's annual revenue growth compared to select competitor company annual revenue growth. (Revenue is measured quarterly and combined to determine annual revenue growth percentage.) The multiplier is determined based on the revenue growth difference of Cisco and the selected competitor companies. The multiplier may range from 0.90 to 1.30.

COMPANY STRATEGIC PERFORMANCE MULTIPLIER

Less Than Competitors	Equal to Competitors	Exceed Competitors Growth By		
		10 pts	20 pts	30 pts
0.9	1.0	1.1	1.2	1.3

EXAMPLE: Cisco Annual Revenue Growth is 30%
 Select Competitor Company Revenue Growth is 20%
 30% - 20% = 10% or 10 points
 Multiplier = 1.1

G. PRORATION MULTIPLIER accounts for the number of calendar days or hours within the day during the fiscal year that the employee was in the bonus-eligible position. For example, the Proration Multiplier for an employee who has been on the Plan the entire year will be "1.00". For an employee who has been on the plan for 6 months, this factor will be "0.50". Employees in the following situations will have a proration factor of less than "1.00":

- o Participants in the Plan who transferred to a new position not governed by any incentive plan.
- o Employees who transferred from one bonus-eligible position to another bonus-eligible position. Employees in this situation will have their bonus prorated based on length of time in each position.
- o Employees who have been on the Plan less than 12 months (such as a new hire).
- o Employees who have been on a leave of absence of any length during the fiscal year.
- o Employees who have been on the Plan, terminated their employment, and returned to a bonus-eligible position all in the same fiscal year.
- o Employees working less than a 40-hour week will receive bonuses prorated according to the following schedule:
 20 - 39 hours/week: prorated according to the average number of hours worked <20 hours/week: not bonus eligible

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

H. BONUS FORMULA AND CALCULATION EXAMPLE: Assume a base salary of \$185,000 at the 40% level, individual performance multiplier of 1.10, company performance multiplier of 1.30, a customer satisfaction multiplier of 1.05, a company strategic performance multiplier of 1.10 and a proration multiplier of 1.00.

SAMPLE CALCULATION:

BASE SALARY	BONUS TARGET PERCENTAGE		INDIVIDUAL PERFORMANCE MULTIPLIER		COMPANY PERFORMANCE MULTIPLIER		CUSTOMER SATISFACTION MULTIPLIER		COMPANY STRATEGIC MULTIPLIER		PRORATION MULTIPLIER		TOTAL BONUS	
\$185,000	0.40	X	1.10		1.30	X	1.05		1.10	X	1.00	X =	\$122,222	X

In this example, the total bonus equals 66.1% of base salary.

I. MIDYEAR BONUS PAYMENTS: If the Company Performance Multiplier is at a minimum of 1.00 (midyear revenue and PBIT), a partial payment will be distributed to eligible employees midway through the fiscal year. This advance will be 50% of the bonus target by level net of any advances, draws, or prorations and appropriate state and federal withholdings. The bonuses will be paid to employees who have met job expectations and were hired on or before the first day of the second quarter of Fiscal Year 1999 and are active on the day of distribution. For example, a Director would receive an advance equal to 20% of base salary. In no event, however, will any right or entitlement to such a partial payment accrue to any eligible participant unless that individual is employed by Cisco Systems or a participating Cisco subsidiary on the distribution date.

If the Company Performance Multiplier is not at a minimum of 1.00 (mid-year revenue and PBIT), a partial payment may be distributed to employees midway through the fiscal year. This payment will be 25% of the bonus target by level. For example, a Director would receive an advance equal to 10% of base salary. If the company performance fails to achieve minimum revenue and PBIT targets resulting in no year-end payout, an additional 25% of the bonus target may be paid.

J. Employees who are on a Written Warning, Performance Improvement Plan and/or are performing at a level of "Not Satisfactory" (N) at the end of the second quarter are not eligible to receive a partial payout midway through the fiscal year. Employees who have entered into a Mutual Separation Agreement may not be eligible to receive a midyear bonus payment or year-end bonus based on manager discretion. An employee may not be eligible to receive a midyear payout based on manager discretion and subject to Human Resources concurrence.

III. PROCEDURES AND PRACTICES

A. PROCEDURE:

1. A copy of the Plan will be made available to each participant.
2. All bonus payments will be made net of applicable withholding taxes.

B. BUSINESS CONDUCT: It is the established policy of Cisco Systems, Inc. to conduct business with the highest standards of business ethics. Cisco employees may not offer, give, solicit or receive any payment that could appear to be a bribe, kickback or other irregular type of payment from anyone involved in any way with an actual or potential business transaction. Gifts, favors and entertainment are allowed such that they are consistent with our business practice, do not violate any applicable laws, are of limited value (\$50.00 or less) and would not embarrass Cisco if publicly disclosed.

C. TRANSFERS AND TERMINATIONS: Employees who are participants in the Senior Management Incentive Plan and who transfer to a new position not governed by this Plan will be eligible on a pro-rata basis for the applicable period and paid as defined by the Plan. Any exceptions to the Plan must be designated in writing and approved by the President.

A participant must be employed as of the last working day of the fiscal year to be eligible for the bonus and must be employed on the distribution date in order to be eligible to receive a partial midyear payment under paragraph II-I. If an employee terminates prior to the applicable date, the employee will not be eligible for such bonus or partial payment.

D. EMPLOYMENT AT WILL: The employment of all Plan participants at Cisco Systems, Inc. or the participating Cisco subsidiaries is for an indefinite period of time and is terminable at any time by either party, with or without cause being shown or advance notice by either party. This Plan shall not be construed to create a contract of employment for a specified period of time between Cisco Systems, Inc. or a participating Cisco subsidiary and any Plan participant.

E. PARTICIPATING CISCO SUBSIDIARY: For the 1999 Fiscal Year, the following Cisco subsidiaries will be participating subsidiaries in the plan:

Cisco Technology, Inc.

Cisco Systems Sales and Services, Inc. Cisco Systems Finance, Inc.

EXHIBIT 10.14

MASTER LEASE

(Cisco Technology, Inc. Trust 1998)

dated as of June 2, 1998

between

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.,

not in its individual capacity, except as expressly stated herein, but solely as Certificate Trustee, as Lessor

and

CISCO TECHNOLOGY, INC.,
as Lessee

Lease Financing of Real Estate Located in Milpitas and San Jose, California

This Lease (which includes two Lease Supplements) is encumbered by a lien in favor of State Street Bank and Trust Company, as Agent (the "Agent") under a Loan Agreement dated as of June 2, 1998 among Lessor, the Lenders, and Agent, as amended or supplemented from time to time. This Lease has been executed in several counterparts. To the extent, if any, that this Lease constitutes chattel paper (as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction), no lien on this Lease may be created through the transfer or possession of any counterpart other than the original counterpart

containing the receipt therefor executed by Agent on the signature page hereof.

MASTER LEASE

This MASTER LEASE dated as of June 2, 1998 (including all Lease Supplements from time to time executed and delivered, this "Lease"), between STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A., not in its individual capacity, except as expressly stated herein, but solely as Certificate Trustee, as Lessor, and CISCO TECHNOLOGY, INC., a California corporation, as Lessee.

WITNESSETH:

1. Lessor will, subject to the terms and conditions of the Participation Agreement, purchase both of the Sites (legally described in Exhibit A) on the Advance Date and advance funds to Lessee to construct the Site Improvements on behalf of Lessor.
2. Lessor desires to lease to Lessee, and Lessee desires to lease from Lessor, both of the Sites.
3. Following the Advance Date, Lessee shall construct the Site Improvements on the Sites, which Site Improvements will be part of the Leased Property.

NOW, THEREFORE, in consideration of the foregoing, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS; INTERPRETATION; FULL RECOURSE

For all purposes hereof, the capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in Appendix 1 to that certain Participation Agreement dated as of even date herewith, among Lessee, Cisco Systems, Inc., a California corporation, as Guarantor, Lessor, Agent and the Participants identified therein (the "Participation Agreement"). The rules of interpretation set forth in such Appendix 1 shall also apply to this Lease. All obligations imposed on the "Lessee" in this Lease shall be the full recourse liability of Lessee.

ARTICLE II

LEASE OF SITES; TERM

II.1 Acceptance and Lease of Sites. On the Advance Date, Lessor, subject to the satisfaction or waiver of the conditions set forth in Article III of the Participation Agreement, hereby agrees to accept delivery on such date of fee title to the Sites pursuant to the terms of the Participation Agreement and the applicable Lease Supplement and simultaneously to lease to Lessee for the Lease Term, Lessor's interest in the Sites together with any Alterations (including the Site Improvements) which thereafter may be constructed thereon pursuant to this Lease, and Lessee hereby agrees to lease commencing on the Advance Date from Lessor for the Lease Term, Lessor's interest in the Sites together with Lessor's interest in any Alterations (including the Site Improvements) which thereafter may be constructed thereon pursuant to this Lease and the Operative Documents.

II.2 Acceptance Procedure for Site. Lessor hereby authorizes one or more employees of Lessee, to be designated by Lessee, as the authorized representative or representatives of Lessor to accept delivery on behalf of Lessor of fee title to the Sites. Lessee hereby agrees that such acceptance of delivery by such authorized representative or representatives and the execution and delivery by Lessee on the Advance Date of a Lease Supplement (appropriately completed) for each Site shall, without further act, constitute the irrevocable acceptance by Lessee of each such Site for all purposes of this Lease and the other Operative Documents on the terms set forth therein and herein, and that the Sites, together with any Alterations (including the Site Improvements) constructed thereon pursuant to this Lease and the other Operative Documents, shall be deemed to be included in the Leased Property and shall be subject to the terms and conditions of this Lease commencing on the Advance Date.

II.3 Term.

(a) Lease Term. The term of this Lease (the "Lease Term") shall begin on the Advance Date and shall end on the date (such date, the "Lease Expiration Date") which is the earlier of (i) the day preceding the fifth (5th) anniversary of the Advance Date or, if the Lease Term is renewed in accordance with Article XX hereof, the day preceding the tenth (10th) anniversary of the Advance Date, (ii) the date on which this Lease is terminated in accordance with the provisions hereof, or (iii) the Final Maturity Date.

II.4 Title. Each Site is leased to Lessee without any representation or warranty, express or implied, by Lessor, Agent, Arranger or any Participant and subject to the rights of parties in possession, the existing state of title (including the Permitted Exceptions), and all Applicable Laws. Lessee shall in no event have any recourse against Lessor for any defect in or exception to title to any Leased Property other than resulting from Lessor Liens.

ARTICLE III

OTHER PROPERTY

Lessee may from time to time own or hold under lease from Persons other than Lessor, furniture, trade fixtures, equipment and other tangible personal property (including software) located on or about either Site and which personal property is not subject to this Lease. Lessor acknowledges Lessee's right to finance and to secure under the UCC inventory, furnishings, furniture, equipment, machinery, leasehold improvements and other personal property located at any of the Sites so long as such UCC filings are not recorded against either Site and by their terms specifically exclude any interest in the Leased Property. Lessor shall from time to time, upon the reasonable request, and at the sole cost and expense of Lessee, which request shall be accompanied by such supporting information and documents as Lessor may reasonably require, promptly acknowledge in writing to Lessee or other Persons that the particular items of furniture, trade fixtures and equipment in question and which are located on a Site are not part of the Leased Property and that, subject to the rights of Lessor under any other Operative Documents, Lessor does not own or have any other right or interest in or to such furniture, trade fixtures and equipment. Lessor agrees to execute as reasonably requested by Lessee in writing and at the sole cost of Lessee, such waiver forms and releases from Lessor Liens (which shall contain customary indemnities for the benefit of Lessor and other protections including the right to treat such property as abandoned if not timely removed by Lessee) in favor of any purchase money seller, lessor or lender which has financed or is in the process of consummating such financing of such personal property items.

ARTICLE IV

RENT

IV.1 Basic Rent. Lessee shall pay to Lessor Basic Rent (i) on each Payment Date, (ii) on any date required under Sections 14.1 or 20.1 or Article XIX and (iii) on any date on which this Lease terminates or upon demand following a Lease Event of Default pursuant to Section 17.1. At least 10 days prior to each Payment Date, Lessor shall deliver to Lessee a notice setting forth the exact amount of Basic Rent due on such date (the "Invoice"). For purposes of this section, delivery of the Invoice by facsimile transmission, receipt confirmed, shall be sufficient.

IV.2 Supplemental Rent. Lessee shall pay to Lessor (or if to a Person other than Lessor, Agent or any of the Participants, to such Person as shall be entitled thereto as expressly provided herein or in any other Operative Document, and Lessor hereby directs Lessee, on behalf of Lessor, to so pay any such other Person), any and all Supplemental Rent promptly as the same shall become due and payable and, in the event of any failure on the part of Lessee to pay any Supplemental Rent, Lessor shall have all rights, powers and remedies provided for herein or by law or in equity or otherwise in the case of nonpayment of Basic Rent. Lessee hereby reaffirms

that its obligation to pay Supplemental Rent shall include (i) the payment of any and all Additional Costs, (ii) all amounts determined to be due and payable or otherwise subject to distribution pursuant to Article III of the Loan Agreement in accordance with its terms. The expiration or other termination of Lessee's obligations to pay Basic Rent hereunder shall not limit or modify the obligations of Lessee with respect to Supplemental Rent. Unless expressly provided otherwise in this Lease, in the event of any failure on the part of Lessee to pay and discharge any Supplemental Rent as and when due, Lessee shall also promptly pay and discharge any fine, penalty, interest or cost which may be assessed or added under any agreement with a third party for nonpayment or late payment of such Supplemental Rent, all of which shall also constitute Supplemental Rent.

IV.3 Method and Amount of Payment. Basic Rent and Supplemental Rent shall be paid by a wire transfer to Lessor (or, in the case of Supplemental Rent due to any Person other than Lessor, Agent or any of the Participants, to such Person as may be entitled thereto) at such place as Lessor (or such other Person) shall specify in writing to Lessee pursuant to Schedule II to the Participation Agreement or Section 9.3 of the Participation Agreement; provided, however, that, so long as the Notes remain outstanding, Lessor directs Lessee to pay Rent directly to the Agent. Each payment of Rent shall be made by Lessee prior to 1:00 p.m. Boston, Massachusetts time (and payments made after such time shall be deemed to have been made on the next day) at the place of payment in funds consisting of lawful currency of the United States of America which (in the case of any amount payable to Lessor, Agent or any Participant or any other Indemnitee) shall be immediately available on the scheduled date when such payment shall be due. The provisions of the foregoing sentence of this Section 4.3 shall be applicable only to Basic Rent and to Supplemental Rent payable to, or on behalf of or for the account of, Lessor, Agent any Participant and any other Indemnitee.

IV.4 Late Payment. If any Basic Rent shall not be paid when due, Lessee shall pay to Lessor, or if any Supplemental Rent payable to or on behalf or for the account of Lessor, Agent, any Participant, or other Indemnitee is not paid when due, Lessee shall pay to such Person as shall be entitled thereto, in each case as Supplemental Rent, interest at the Overdue Rate (to the maximum extent permitted by Applicable Laws) on such overdue amount from and including the due date thereof (without regard to any applicable grace period) to but excluding the Business Day of payment thereof.

ARTICLE V

NET LEASE

This Lease shall constitute a net lease and, notwithstanding any other provision of this Lease, it is intended that Basic Rent, Supplemental Rent, the Lease Balance and all other amounts due and payable under the Operative Documents shall be paid without counterclaim, setoff, deduction or defense of any kind and without abatement, suspension, deferment, diminution or reduction of any kind, and Lessee's obligation to pay all such amounts throughout the Lease Term is absolute and unconditional. The obligations and liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected for any reason, including, to the maximum extent permitted by Applicable Laws:

(a) any defect in the condition, merchantability, design, construction, quality or fitness for use of any portion of the Leased Property, or any failure of the Leased Property to comply with all Applicable Laws, including any inability to occupy or use the Leased Property by reason of such non-compliance; (b) any damage to, abandonment, loss, contamination of or Release from or destruction of or any requisition or taking of the Leased Property or any part thereof, including eviction; (c) any restriction, prevention or curtailment of or interference with any use of the Leased Property or any part thereof, including eviction; (d) any defect in title to or rights to the Leased Property or any Lien on such title or rights on the Leased Property; (e) any change, waiver, extension, indulgence or other action or omission or breach in respect of any obligation or liability of or by Lessor, Agent or any Participant; (f) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceedings relating to Lessee, Lessor, Agent, any Participant or any other Person, or any action taken with respect to this Lease by any trustee or receiver of Lessee, Lessor, Agent, any Participant or any other Person, or by any court, in any such proceeding; (g) any claim that Lessee has or might have against any Person, including Lessor, Agent, or any Participant; (h) any failure on the part of Lessor to perform or comply with any of the terms of this Lease, any other Operative Document or of any other agreement whether or not related to the Overall Transaction; (i) any invalidity or unenforceability or disaffirmance against or by Lessee of this Lease or any provision hereof or any of the other Operative Documents or any provision of any thereof; (j) the impossibility of performance by Lessee, Lessor or both; (k) any action by any court, administrative agency or other Authority; any restriction, prevention or curtailment of or any interference with the construction on or any use of the Leased Property or any part thereof; (l) the failure of Lessee to achieve any accounting or tax benefits or the characterization of the transaction intended by Section 22.19 of this Lease and Section 2.7 of the Participation Agreement or (m) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether or not Lessee shall have notice or knowledge of any of the foregoing. Except as specifically set forth in Article XIV, Article XIX or Section 20.1, this Lease shall be non-terminable and noncancellable by Lessee for any reason whatsoever, and Lessee, to the extent permitted by Applicable Laws, waives all rights now or hereafter conferred by statute or otherwise to quit, terminate or surrender this Lease, or to any diminution, abatement or reduction of Rent payable by Lessee hereunder. If for any reason whatsoever this Lease shall be terminated in whole or in part by operation of law or otherwise, except as expressly provided in Article XIV or Article XIX, Lessee shall, unless prohibited by Applicable Laws, nonetheless pay to Lessor (or, in the case of Supplemental Rent due to any Person other than Lessor, Agent or any of the Participants, to such Person as shall be entitled thereto) an amount equal to each Rent payment (including the Lease Balance or any other amount due and payable under any Operative

Documents) at the time and in the manner that such payment would have become due and payable under the terms of this Lease if it had not been terminated in whole or in part. Each payment of Rent and any payment of the Lease Balance made by Lessee hereunder shall be final and, absent manifest error in the computation of the amount thereof, Lessee shall not seek or have any right to recover all or any part of such payment from Lessor, Agent, any Participant or any party to any agreements related thereto for any reason whatsoever. Lessee assumes the sole responsibility for the condition, use, operation, maintenance, and management of the Leased Property and Lessor shall have no responsibility in respect thereof and shall have no liability for damage to the property of Lessee or any subtenant of Lessee on any account or for any reason whatsoever other than by reason of Lessor's willful misconduct or gross negligence or negligence in the handling of funds; provided, however, any liability of Lessor with respect to any such willful misconduct or gross negligence or negligence in the handling of funds shall not limit or affect Lessee's absolute obligations as set forth in this Article V. Without affecting Lessee's obligation to pay Basic Rent, Supplemental Rent, the Lease Balance and all other amounts due and payable under the Operative Documents, or to perform its obligations under the Operative Documents, Lessee may seek damages or any other remedy at law or equity against Lessor for a breach by Lessor of its obligations under this Lease or the Participation Agreement.

ARTICLE VI

UTILITY CHARGES

Lessee shall pay or cause to be paid all charges for electricity, power, gas, oil, water, telephone, sanitary sewer service and all other rents and utilities used in or on the Leased Property during the Lease Term. Lessee shall be entitled to receive any credit or refund with respect to any utility charge paid by Lessee and the amount of any credit or refund received by Lessor on account of any utility charges paid by Lessee, net of the costs and expenses reasonably incurred by Lessor in obtaining such credit or refund, shall be promptly paid over to Lessee. All charges for utilities imposed with respect to the Leased Property for a billing period during which this Lease expires or terminates (except pursuant to Article XIX or Section 20.1(b) hereof, in which case Lessee shall be solely responsible for all such charges) shall be adjusted and prorated on a daily basis between Lessee and any purchaser of the Leased Property, and each party shall pay or reimburse the other for each party's pro rata share thereof; provided, that in no event shall Lessor have any liability therefor.

ARTICLE VII

CONDITION OF LEASED PROPERTY

VII.1 Waivers. LESSEE ACKNOWLEDGES AND AGREES THAT, ALTHOUGH LESSOR WILL OWN AND HOLD RECORD TITLE TO THE LEASED PROPERTY, LESSEE

IS SOLELY RESPONSIBLE FOR THE LEASED PROPERTY AND ANY ALTERATIONS. The Leased Property is let by Lessor "AS IS" in its present condition, subject to (a) any rights of any parties in possession thereof, (b) the state of the title thereto existing at the time Lessor acquired its interest in the Leased Property, (c) any state of facts which an accurate survey or physical inspection might show (including any survey delivered on or prior to the Advance Date), (d) all Applicable Laws, and (e) any violations of Applicable Laws which may exist at the commencement of the Lease Term. Lessee has examined the Leased Property and (insofar as Lessor is concerned) has found the same to be satisfactory. NONE OF LESSOR, AGENT, ARRANGER NOR ANY PARTICIPANT HAS MADE OR SHALL BE DEEMED TO HAVE MADE ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OR SHALL BE DEEMED TO HAVE ANY LIABILITY WHATSOEVER AS TO THE TITLE TO THE LEASED PROPERTY OR TO THE VALUE, MERCHANTABILITY, HABITABILITY, CONDITION, OR FITNESS FOR USE OF THE LEASED PROPERTY, OR ANY PART THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO THE LEASED PROPERTY, OR ANY PART THEREOF, AND NONE OF LESSOR, AGENT, ARRANGER NOR ANY PARTICIPANT SHALL BE LIABLE FOR ANY LATENT, HIDDEN, OR PATENT DEFECT THEREIN OR THE FAILURE OF THE LEASED PROPERTY, OR ANY PART THEREOF, TO COMPLY WITH ANY APPLICABLE LAWS, except that Lessor hereby represents and warrants that the Leased Property, is and shall be free of Lessor Liens. Lessee has been afforded full opportunity to inspect the Leased Property, is satisfied with the results of its inspections and is entering into this Lease solely on the basis of the results of its own inspections, and all risks incident to the matters discussed in the preceding sentence, as between Lessor, Agent, Arranger and the Participants, on the one hand, and Lessee, on the other, are to be borne by Lessee. The provisions of this Article VII have been negotiated, and, except to the extent otherwise expressly stated, the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties by any of Lessor, Agent, Arranger or the Participants, express or implied, with respect to the Leased Property (or any interest therein), that may arise pursuant to any law now or hereafter in effect or otherwise.

ARTICLE VIII

NON-INTERFERENCE

VIII.1 Non-Interference. Except as provided for at Article XVIII and so long as no Lease Event of Default has occurred and is continuing, Lessor covenants that it will not interfere in Lessee's or any of its permitted subtenants' use of the Leased Property in accordance with this Lease during the Lease Term; it being agreed that Lessee's remedies for breach of the foregoing covenant shall be limited to a claim for damages or the commencement of proceedings to enjoin such breach. Such right is independent of and shall not affect Lessee's obligations hereunder and under the other Operative Documents or Lessor's or any other Person's rights otherwise to initiate legal action to enforce the obligations of Lessee under this Lease.

VIII.2 Certain Duties and Responsibilities of Lessor. Lessor undertakes to perform such duties and only such duties as are specifically set forth herein and in the other Operative Documents, and no implied covenants or obligations shall be read into this Lease against Lessor, and Lessor agrees that it shall not, nor shall it have a duty to, manage, control, use, sell, maintain, insure, register, lease, operate, modify, dispose of or otherwise deal with the Leased Property or any other part of the Trust Estate in any manner whatsoever, except as required by the terms of the Operative Documents and as otherwise provided herein.

ARTICLE IX

MAINTENANCE AND REPAIR; ALTERATIONS AND ADDITIONS

IX.1 Maintenance and Repair; Compliance With Applicable Laws. Lessee, at its own expense, shall at all times (a) maintain the Leased Property in at least its current condition, subject to ordinary wear and tear, and in any event at least as good as the condition of similar properties owned or leased by Lessee and its affiliates and in good repair and condition and free from nuisance; (b) except to the extent Section 9.5 hereof shall apply, maintain, manage and monitor the Leased Property in accordance with all Applicable Laws, whether or not such maintenance requires modifications or alterations; (c) comply with the Insurance Requirements which are in effect at any time with respect to the Leased Property or any part thereof; (d) maintain, manage and monitor the Leased Property in accordance with all applicable Contractual Requirements; (e) use the Leased Property only in accordance with Article X; (f) take all appropriate steps that may be required to keep the Leased Property in the condition required by the preceding clauses (a) through (e), ordinary or extraordinary, foreseen or unforeseen, and including repairs, replacements and renewals that would constitute capital expenditures under GAAP if incurred by an owner of property; and (g) procure, maintain and comply in all material respects with all material Governmental Actions required for the use, development, maintenance and operation of the Leased Property. Lessee waives any right that it may now have or hereafter acquire to (x) require Lessor to maintain, repair, replace, alter, remove or rebuild all or any part of the Leased Property or (y) make repairs at the expense of Lessor pursuant to any Applicable Laws or other agreements.

IX.2 Improvements and Alterations to Leased Property.

(a) (i) Lessee, at Lessee's own cost and expense, shall make alterations, improvements and additions to the Leased Property and or any part thereof and substitutions and replacements therefor (collectively, "Alterations") which are (A) necessary to repair or maintain the Leased Property in the condition required by Section 9.1; (B) necessary in order for the Leased Property to be in compliance with Applicable Laws; or (C) necessary to restore the Leased Property to its condition existing prior to a Casualty or Condemnation to the extent required pursuant to Article XIII; and (ii) so long as no Lease Event of Default or Lease Default

has occurred and is continuing, Lessee, at Lessee's own cost and expense, may undertake Alterations on either Site so long as such Alterations comply with Applicable Laws and with Section 9.1 and subsection (b) of this Section 9.2.

(b) The making of any Alterations must be in compliance with the following requirements:

(i) Lessee shall not make any Alterations in violation of the terms of any restriction, easement, condition or covenant or other matter affecting title to the Leased Property.

(ii) No Alterations shall be undertaken until Lessee shall have procured and paid for, so far as the same may be required from time to time, all permits and authorizations relating to such Alterations of all municipal and other Authorities having jurisdiction over the applicable Site. Lessor, at Lessee's expense, shall join in the application for any such permit or authorization and execute and deliver any document in connection therewith, whenever such joinder is necessary or advisable.

(iii) The Alterations shall be expeditiously completed in a good and workmanlike manner and in compliance with all Applicable Laws then in effect and the standards imposed by any insurance policies required to be maintained hereunder.

(iv) All Alterations shall, when completed, be of such a character as to not materially adversely affect the fair market value or residual value of the affected Site from its fair market value or residual value immediately prior to the making thereof or, in the case of Alterations being made by virtue of a Casualty or Condemnation, immediately prior to the occurrence of such Casualty or Condemnation.

(v) Lessee shall have made adequate arrangements for payment of the cost of all Alterations when due so that the Leased Property shall at all times be free of Liens, including for labor and materials supplied or claimed to have been supplied to the Leased Property, other than Permitted Liens; provided, that Lessee shall have the right to engage in Permitted Contests in accordance with Section 9.5.

(vi) The Alterations must be located solely on the Leased Property.

IX.3 Title to Alterations. Title to the following described Alterations shall without further act vest in Lessor and shall be deemed to constitute a part of the Leased Property and be subject to this Lease:

(a) Alterations that are Nonseverable and which are not Development Improvements which have been approved pursuant to Section 6.2 of the Participation Agreement;

(b) Alterations (including all Site Improvements) that are financed with any amounts advanced by the Participants on the Advance Date pursuant to the Participation Agreement; and

(c) Alterations that are required to be made pursuant to the terms of Section 9.1 or 9.2(a)(i) hereof.

Lessee, at Lessor's request, shall execute and deliver any deeds, bills of sale, assignments or other documents of conveyance reasonably necessary to evidence the vesting of title in and to such Alterations to Lessor.

If such Alterations are not within any of the categories set forth in clauses (a) through (c) of this Section 9.3, then title to such Alterations shall vest in Lessee and such Alterations shall not be deemed to be Alterations which are part of the Leased Property.

All Alterations to which Lessee shall have title may, so long as removal thereof shall not result in the violation of any Applicable Laws and no Lease Event of Default or Lease Default is continuing, be removed at any time by Lessee. Lessee agrees to notify Lessor in writing at least 30 days before it removes any Alterations and Lessee shall at its expense repair any damage to the Leased Property caused by the removal of such Alterations. Subject to the provisions of Section 6.2 of the Participation Agreement, title to any Alterations shall vest in Lessor (or the purchaser of the applicable Leased Property) if not removed from the Leased Property by Lessee prior to the return of the Leased Property to Lessor or sale of the Leased Property.

IX.4 Maintenance and Repair Reports. Lessee shall keep reports in sufficient detail, and as customary for owners of commercial real estate, to indicate the nature and date of major work done. Such reports shall be made available at Lessee's office to Lessor upon reasonable request. Lessee shall give notice to Lessor of any Condemnation, the cost to repair which is reasonably expected by Lessee to exceed \$10,000,000, promptly after Lessee has knowledge thereof.

IX.5 Permitted Contests. If, to the extent and for so long as (a) a test, challenge, appeal or proceeding for review of any Applicable Laws or any Governmental Action relating to the Leased Property or to the operation or maintenance thereof shall be prosecuted diligently and in good faith in appropriate proceedings by Lessee or (b) compliance with such Applicable Laws or such Governmental Action shall have been excused or exempted by a valid nonconforming use permit, waiver, extension or forbearance, Lessee shall not be required to comply with such Applicable Laws or such Governmental Action but only if and so long as any such test, challenge, appeal, proceeding or noncompliance shall constitute a Permitted Contest.

Lessor will not be required to join in any Permitted Contest pursuant to this Section 9.5 unless a provision of any Applicable Laws requires, or, in the good faith opinion of Lessee, it is helpful to Lessee, that such proceedings be brought by or in the name of Lessor; and in that event, Lessor will join in the proceedings or permit them or any part thereof to be brought in its

name if and so long as no Lease Event of Default is continuing and Lessee pays all related out-of-pocket expenses and reasonable allocated internal costs of Lessor and provides to Lessor adequate indemnification.

IX.6 Warrant of Title.

(a) Lessee agrees that, except as otherwise provided herein and subject to the terms of Section 9.5 relating to Permitted Contests, Lessee shall not directly or indirectly create or allow to remain, and shall promptly discharge at its sole cost and expense, any Lien, defect, attachment, levy, title retention agreement or claim upon any Leased Property or any Alterations to a Site, or any Lien, attachment, levy or claim with respect to the Rent or with respect to any amounts held by Agent pursuant to the Loan Agreement or the other Loan Documents, other than Permitted Liens and Lessor Liens.

(b) Nothing contained in this Lease shall be construed as constituting the consent or request of Lessor, expressed or implied, to or for the performance by any contractor, mechanic, laborer, materialman, supplier or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to either Site or any part thereof. NOTICE IS HEREBY GIVEN THAT NEITHER LESSOR, NOR ANY PARTICIPANT NOR AGENT IS OR SHALL BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO LESSEE, OR TO ANYONE HOLDING A SITE OR ANY PART OR PORTION THEREOF THROUGH OR UNDER LESSEE, AND THAT NO MECHANIC'S OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF LESSOR, AGENT OR ANY PARTICIPANT IN AND TO ANY LEASED PROPERTY.

IX.7 Grants and Releases of Easements on the Sites. Provided that no Lease Event of Default shall have occurred and be continuing and subject to the provisions of Articles VIII, IX, X and XI, Lessor hereby consents in each instance to the following actions by Lessee, in the name and stead of Lessor, but at Lessee's sole cost and expense (a) the granting of easements, licenses, rights-of-way and other rights and privileges in the nature of easements reasonably necessary or desirable for the use, repair, or maintenance of a Site as herein provided; (b) the release of existing easements or other rights in the nature of easements which are for the benefit of a Site; (c) the dedication or transfer of unimproved portions of a Site for road, highway or other public purposes; (d) the execution of petitions to have a Site annexed to any municipal corporation or utility district; (e) the execution of amendments to any covenants and restrictions affecting a Site; and (f) the execution of such plats, lot splits, lot line adjustments, parcel maps and dedications as may be necessary or desirable in connection with the re-parcelization of the Sites; provided, however, that in each case (i) such grant, release, dedication, transfer, annexation, amendment or re-parcelization does not materially impair the value, utility or remaining useful life of the applicable Site, (ii) such grant, release, dedication, transfer, annexation, amendment or re-parcelization is reasonably necessary or desirable in connection with the use, maintenance, alteration or improvement of the applicable Site, (iii) such grant,

release, dedication, transfer, annexation, amendment or re-parcelization will not cause the applicable Site or any portion thereof to fail to comply in any material respect with the provisions of this Lease or any other Operative Documents or in any material respect with any Applicable Laws (including all applicable zoning, planning, building and subdivision ordinances, all applicable restrictive covenants and all applicable architectural approval requirements);

(iv) all governmental consents or approvals required prior to such grant, release, dedication, transfer, annexation, amendment or re-parcelization have been obtained, and all filings required prior to such action have been made; (v) such grant, release, dedication, transfer, annexation, amendment or re-parcelization will not result in any material down-zoning of the applicable Site or any portion thereof or a material reduction in the maximum density or development rights available to the applicable Site under all Applicable Laws;

(vi) Lessee shall remain obligated under this Lease and under any instrument executed by Lessee consenting to the assignment of Lessor's interest in this Lease as security for indebtedness, in each such case in accordance with their terms, as though such grant, release, dedication, transfer, annexation, amendment or re-parcelization had not been effected; and (vii) Lessee shall pay and perform, and fully indemnify Lessor from and against any Claims arising from, any obligations of Lessor under such grant, release, dedication, transfer, annexation, amendment, or re-parcelization. Without limiting the effectiveness of the foregoing, provided that no Lease Event of Default shall have occurred and be continuing, Lessor shall, upon the request of Lessee, and at Lessee's sole cost and expense, execute and deliver any instruments necessary or appropriate to confirm any such grant, release, dedication, transfer, annexation, amendment, or re-parcelization to any Person permitted under this Section. Notwithstanding anything to the contrary contained in this Section, as a condition to executing and delivering any plats, lot splits, lot line adjustments, parcel maps and dedications as may be necessary or desirable in connection with the re-parcelization of the Sites, Lessee shall deliver to Lessor and Agent such documentation as Lessor or Agent reasonably deem necessary or desirable to document or evidence the continued effectiveness, perfection and priority of this Lease, the Lease Supplements, the Deed of Trust and the other Operative Documents including new or revised surveys, new, updated or endorsed Title Policies and opinions of counsel for Lessee, all in such form and substance reasonably satisfactory to Lessor and Agent.

IX.8 Inspection. Upon five (5) Business Days prior notice to Lessee, Lessor or its authorized representatives (the "Inspecting Parties") may inspect

(a) the Leased Property and (b) the books and records of Lessee relating to the Leased Property and make copies and abstracts therefrom. All such inspections shall be at the expense of the Inspecting Parties, except that if a Lease Event of Default or Lease Default has occurred and is continuing, Lessee shall reimburse the Inspecting Parties for the reasonable costs of such inspections. Lessee shall furnish to the Inspecting Parties statements accurate in all material respects regarding the condition and state of repair of the Leased Property, at such times and as may be reasonably requested. No inspection shall unreasonably interfere with Lessee's operations or the operations of any permitted sublessee of the Leased Property. None of the Inspecting Parties shall have any duty to make any such inspection or inquiry. None of the Inspecting Parties shall incur any liability or obligation by reason of making any such inspection or inquiry unless and to the extent, such Inspecting Party

causes damage to the Leased Property or any property of Lessee or any other Person during the course of such inspection.

IX.9 Reports. To the extent permissible under Applicable Laws, Lessee shall prepare and file in timely fashion, or, where Lessor shall be required to file, Lessee shall prepare and make available to Lessor within a reasonable time prior to the date for filing and Lessor shall file, any reports with respect to the condition or operation of the Leased Property that shall be required to be filed with any Authority.

ARTICLE X

USE

Subject to the requirements of this Article X, each Site may be used for any Permitted Use. Lessee shall not use the Leased Property or any part thereof for any purpose or in any manner that would materially adversely affect the Fair Market Value, utility, remaining useful life or residual value of either Site or that would create a materially increased risk of environmental liability or that would violate or conflict with, or constitute or result in a violation or default under (a) any Applicable Laws whether now existing or hereafter in effect, foreseen or unforeseen, except to the extent permitted by Section 9.5,

(b) the Insurance Requirements, or (c) any Operative Document. Lessee shall pay, or cause to be paid, all charges and costs required in connection with the use of the Leased Property as contemplated by this Lease and the Participation Agreement. Lessee shall not, and shall not permit any other Person to, use or develop the Leased Property or any portion thereof for residential uses. Lessee shall not commit or permit any waste of the Leased Property or any part thereof or take any act or fail to take any act which would cause or permit a nuisance to exist or occur upon the Leased Property.

ARTICLE XI

INSURANCE

XI.1 Required Coverages. Subject in all respects to Lessee's rights under Section 11.2, Lessee shall maintain:

(a) Comprehensive General Liability Insurance. Combined single limit insurance against claims for third-party bodily injury, including death and third-party property damage occurring on, in or about the Leased Property (including adjoining streets and sidewalks) at least equal to \$1,000,000 per occurrence and a minimum of \$5,000,000 excess of such coverage.

(b) Property Insurance. Insurance against loss or damage covering the Improvements or any portion thereof by reason of any Peril (as defined below) in an amount (subject to such deductibles in such minimum amounts as is carried by corporations owning and/or operating similar properties) otherwise acceptable to the Required Participants; provided, however, that at no time shall the amount of such coverage be less than the replacement cost of the Improvements, including any costs that may be required to cause the Improvements to be reconstructed to then current Applicable Laws. The term "Peril" shall mean all perils covered by the standard policy with "all risk endorsement" then in use in the State of California. Alternatively, at Lessee's election, such insurance shall be on a coverage form reasonably available in the commercial insurance market at the time of the most recent policy reviewed.

(c) Workers' Compensation Insurance. Lessee shall, in the construction of any Alterations and the operation of the Leased Property, comply with the Applicable Laws regarding workers' compensation and protect Lessor, Agent and the Participants against any liability under such Applicable Laws arising out of injury to employees of Lessee or its construction contractors. Lessee is not hereby obligated to insure or indemnify against such liability as described in this Section 11.1(c) for injury to employees of Lessor, Agent or the Participants.

(d) General Requirements. Such insurance shall be written by reputable insurance companies that are financially sound and solvent and otherwise reasonably appropriate considering the amount and type of insurance being provided by such companies. Any insurance company selected by Lessee shall be rated in A.M. Best's Insurance Guide or any successor thereto (or if there be none, an organization having a similar national reputation) and shall have a general policyholder rating of "A" (or comparable rating for a rating by an organization other than A.M. Best) and a financial rating of at least "X" (or comparable rating for a rating by an organization other than A.M. Best) or be otherwise acceptable to the Required Participants. In the case of liability insurance maintained by Lessee, it shall name Lessor (both in its individual capacity and as trustee), Agent, and each of the Participants, as additional insureds and, in the case of property insurance maintained by Lessee, it shall name Lessor, Agent, and the Participants, as mortgagee and loss payee as their interests may appear. The insurance coverages required under this Section may be obtained under one or more blanket policies covering Guarantor and its Subsidiaries and/or covering properties of Guarantor and its Subsidiaries in addition to the Sites and may be provided by a combination of primary insurance policies and excess liability ("umbrella") insurance policies otherwise in compliance with this Section 11.1. Each policy referred to in this Section 11.1 shall provide that: (i) it will not be canceled, materially modified or its limits reduced, or allowed to lapse without renewal, except after not less than 30 days' prior written notice to Lessor; (ii) the interests of Lessor, Agent and any Participant shall not be invalidated by any act or negligence of or breach of warranty or representation by Lessee or any Person having an interest in the Leased Property; (iii) such insurance is primary with respect to any other insurance carried by or available to Lessor, Agent, or any Participant; (iv) the insurer shall waive any right of subrogation, setoff, counterclaim, or other deduction, whether by attachment or otherwise, against Lessor; and (v) such policy shall contain a cross-liability clause providing for coverage of Lessor, Agent and each Participant, as if

separate policies had been issued to each of them. Lessee will notify Lessor promptly of any policy cancellation, reduction in policy limits, modification or amendment.

XI.2. Self-Insurance Rights. Lessee shall have the right to self-insure through a self-insurance program maintained by Guarantor with respect to any of the insurance required under this Lease so long as (i) Guarantor is a publicly traded domestic corporation whose stock is traded on a nationally recognized exchange; (ii) Lessee has not assigned this Lease; (iii) Guarantor maintains a Consolidated Tangible Net Worth of at least \$1,800,000,000 according to its most recent audited financial statement; and (iv) Guarantor governs and manages its self-insurance program in a manner consistent with programs managed by prudent businesses whose stock is publicly traded on nationally recognized exchanges; provided that if Lessee maintains or is required to maintain for the benefit of any Person (other than pursuant to the Operative Documents) insurance written by a third party insurance company with respect to any Leased Property or the Improvements or activities conducted thereon, then Lessee shall maintain for the benefit of Lessor, (in its individual capacity and as trustee), Agent and each of the Participants, insurance written by a third party insurance company satisfying the requirements of Section 11.21(d) against such casualties and contingencies and of such types and in such amounts as Lessee maintains or is required to maintain for such other Person. Upon request, Lessee shall supply or cause Guarantor to supply Lessor from time to time with evidence reasonably satisfactory to Lessor of Guarantor's net worth and the satisfaction of the conditions set forth above. If Lessee elects to self-insure, Lessee shall be responsible for losses or liabilities which would have been assumed by the insurance companies which would have issued the insurance required of Lessee under the Lease. Lessee will notify Lessor in advance of any period for which Lessee intends to self-insure and shall provide Lessor with satisfactory evidence that Lessee complies with these requirements in order to give Lessor an opportunity to confirm the satisfaction of the conditions set forth above. For so long as Lessee self-insures, Lessee, for applicable periods, shall and does hereby indemnify and hold harmless Lessor, Agent and the Participants, and their respective officers, directors, agents, employees, trustees, beneficiaries, and representatives from and against all Claims (including reasonable attorneys' fees) incurred or paid by Lessor, Agent or the Participants as a result of any Claim customarily covered by a broad-form policy of commercial general liability insurance, including a contractual liability endorsement.

XI.3 Delivery of Insurance Certificates. Promptly at any date Lessee is not entitled to self-insure under Section 11.2 (and in no event later than ten (10) business days after the occurrence of the event or condition which causes such right to self-insure to cease or the date Lessee voluntarily decides to cease participation in such self-insurance program) and thereafter in no event less frequently than once each year on or before June 1 or upon written request by Lessor following a Lease Event of Default, Lessee shall deliver to Lessor certificates of insurance satisfactory to Lessor evidencing the existence of all insurance required to be maintained hereunder and setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage required at Section 11.1.

ARTICLE XII

ASSIGNMENT AND SUBLEASING

XII.1 Assignment by Lessee. Lessee may not assign this Lease or any of its rights or transfer or delegate any of its obligations hereunder in whole or in part to any Person, except that Lessee may sublease either Site or any portion thereof as permitted under Section 12.2. Notwithstanding the foregoing sentence, Lessee may, so long as no Lease Event of Default has occurred and is continuing, or would result therefrom, upon prior written notice to each of Lessor and Agent, (i) delegate any of its obligations hereunder to any Affiliate, provided that no delegation shall in any way discharge or diminish any of Lessee's obligations to Lessor hereunder and Lessee shall remain directly and primarily liable under this Lease and (ii) assign this Lease and all of Lessee's rights and transfer or delegate any of its obligations hereunder to an Affiliate of Lessee pursuant to an assignment and assumption agreement and such other documentation, including opinions of counsel, all in form and substance reasonably satisfactory to Lessor and the Required Participants; provided, that, in any event of such assignment, Lessee shall (a) cause Guarantor to deliver a reaffirmation of the Guarantees in form and substance and in all respects satisfactory to Lessor and Agent that the Guarantees remain in full force and effect with respect to such Affiliate as "Lessee" hereunder and under the other Operative Documents, and (b) provide to Lessor reasonably satisfactory evidence that such transferee Affiliate complies with the requirements of Section 11.2 (or alternatively, maintains the insurance coverages required under Section 11.1).

XII.2 Subletting. Lessee may from time to time, sublease either Site or any portion thereof to any Person and to extend, modify or renew any sublease without the approval of Lessor or Agent; provided, however, that (a) no sublease or other relinquishment of possession of the Leased Property shall in any way discharge or diminish any of Lessee's obligations to Lessor hereunder, nor affect or impair the Guarantees with respect to such obligation, nor release or discharge, in whole or in part, Guarantor from any such obligations, and Lessee shall remain directly and primarily liable under this Lease as to the Leased Property, or portion thereof, so sublet; (b) each sublease shall expressly be made subject to and subordinated to this Lease and to the rights of Lessor hereunder; (c) each sublease shall expressly provide for the surrender of the applicable Leased Property or portion thereof by the applicable sublessee at the election of the Required Participants or Lessor (as applicable) after the occurrence of a Lease Event of Default or upon the expiration or termination of this Lease; and (d) if a sublessee is not a Subsidiary, such sublease shall contain a provision whereby such sublessee agrees in writing not to assert a claim or to challenge the intended character and treatment of the Overall Transaction described in Section 2.7 of the Participation Agreement and such sublessee irrevocably waives and relinquishes any such rights to assert such claim or otherwise make such challenge.

ARTICLE XIII

CASUALTY AND CONDEMNATION; ENVIRONMENTAL MATTERS

XIII.1 Casualty and Condemnation.

(a) Subject to the provisions of this Article XIII, if all or a portion of the Site Improvements on a Site are damaged or destroyed in whole or in part by a Casualty or if the use, access, occupancy, easement rights or title to either Site or any part thereof, is the subject of a Condemnation, then

(i) any insurance proceeds payable with respect to such Site Improvements affected by such Casualty (or if Lessee is participating in Guarantor's self-insurance program, any amounts payable in connection with such program) shall be paid directly to Lessee (or if received by Lessor, shall be paid over to Lessee), which amounts shall be used by Lessee for the sole purpose of reconstruction, refurbishment and repair of such Improvements; provided, that such reconstruction, refurbishment or repair can be completed prior to the end of the Lease Term; provided, further, that in the event that either (i) such reconstruction, refurbishment or repair cannot be completed prior to the end of the Lease Term or (ii) Lessee shall elect not to use all such proceeds for the reconstruction, refurbishment or repair of such Site Improvements, then all such proceeds payable with respect to such Casualty shall be paid to Lessor to be applied towards the payment of the Lease Balance in accordance with Article III of the Loan Agreement, and

(ii) (x) in the case of a Condemnation (that is not a Significant Condemnation) of any part of either Site, any award or compensation relating thereto shall be paid to Lessee for the sole purpose of restoration of such Site (provided, that such restoration can be completed prior to the end of the Lease Term) or else the portion of such award or compensation attributable to the Site and the Site Improvements shall be paid to Lessor to be applied in the Required Participants' reasonable discretion to the partial restoration of such Site or towards the payment of the applicable Lease Balance, and (y) in the case of a Significant Condemnation, the portion of such award or compensation attributable to the Site and the Site Improvements shall be paid to Lessor to be applied in the reasonable discretion of the Required Participants to the restoration of such Site or toward the payment of the applicable Lease Balance in accordance with Article III of the Loan Agreement.

provided, however, that, in each case, if a Lease Event of Default shall have occurred and be continuing, such award, compensation or insurance proceeds shall be subject to Section 22.17 and shall be paid directly to Lessor or, if received by Lessee, Lessee shall promptly pay over such amount to Lessor, and pending such payment such amounts shall be deemed to be held in trust for the Participants.

(b) If pursuant to this Section 13.1 and Section 14.1 this Lease shall continue in full force and effect following a Casualty to Improvements or a Condemnation with respect to a Site, Lessee shall, at its sole cost and expense (and, without limitation, if any award, compensation or insurance payment is not sufficient to restore such Site Improvements or Site in accordance with this Section 13.1, Lessee shall pay the shortfall), promptly and diligently repair any damage to such Site caused by such Casualty or Condemnation in conformity with the requirements of Article IX, to restore such Site and the Site Improvements thereon to at least the same condition, operative value and useful life as existed immediately prior to such Casualty or Condemnation. Lessee's obligation to restore the Improvements other than the Site Improvements shall be limited to (i) eliminating any condition or hazard which might pose a threat to human health or safety, or create a nuisance at any Site or securing the Sites during the period of restoration so as to mitigate against such risk and (ii) restoring or otherwise putting such Improvements in a condition so that the Improvements will not materially adversely affect the Fair Market Value of the affected Site or the Site Improvements thereon. In such event, title to such Site shall remain with Lessor subject to the terms of this Lease. Upon completion of such restoration, Lessee shall furnish to Lessor and Agent an architect's certificate of substantial completion and a Responsible Officer's Certificate confirming that such restoration has been completed pursuant to this Lease.

(c) In no event shall a Casualty or Condemnation affect Lessee's obligations to pay Rent pursuant to Article IV or to perform its obligations and pay any amounts due on the Lease Expiration Date or pursuant to Articles XIX and XX.

(d) Any Excess Casualty/Condemnation Proceeds received by Lessor in respect of a Casualty or Condemnation shall be turned over to Lessee.

XIII.2 Negotiations. In the event any part of the Leased Property becomes subject to condemnation or requisition proceedings, Lessee shall give notice thereof to Lessor promptly after Lessee has knowledge thereof and, to the extent permitted by any Applicable Laws, Lessee shall control the negotiations with the relevant Authority unless a Lease Event of Default exists, in which case Lessor may control such negotiations; provided, that in any event Lessor may participate at Lessor's expense (or if a Lease Event of Default exists, at Lessee's expense) in such negotiations; and provided in all cases, that no settlement will be made without Lessor's prior written consent, not to be unreasonably withheld. At no cost to Lessor, Lessee shall give to Lessor such information, and copies of such documents, which relate to such proceedings, or which relate to the settlement of amounts due under insurance policies required by Section 11.1, and are in the possession of Lessee, as are reasonably requested by Lessor. Nothing contained in this Section 13.2 shall diminish Lessor's rights with respect to Net Condemnation Proceeds under Section 14.2.

XIII.3 Environmental Matters. Promptly upon Lessee's knowledge of the existence of an Environmental Violation with respect to any Site, Lessee shall notify Lessor in writing of such Environmental Violation. If Lessor elects not to terminate this Lease with respect to such Site

pursuant to Section 14.1, at Lessee's sole cost and expense, Lessee shall promptly and diligently commence any response, clean up, remedial or other action necessary to remove, clean up or remediate the Environmental Violation in accordance with the terms of Article IX. Lessee shall, upon completion of remedial action by the Lessee, cause to be prepared by an environmental consultant reasonably acceptable to Lessor a report describing the Environmental Violation and the actions taken by Lessee (or its agents) in response to such Environmental Violation, and a statement by the consultant that the Environmental Violation has been remedied in compliance in all material respects with applicable Environmental Laws. Each such Environmental Violation shall be remedied prior to the Lease Expiration Date unless each Site with respect to which an Environmental Violation has occurred but has not been remedied has been purchased by Lessee in accordance with Article XIX or Section 20.1(b). Nothing in this Article XIII shall reduce or limit Lessee's obligations under Article VII of the Participation Agreement.

XIII.4 Notice of Environmental Matters. Promptly, but in any event within sixty (60) days from the date Lessee has Actual Knowledge thereof, Lessee shall provide to Lessor written notice of any pending or threatened claim, action or proceeding involving any Environmental Laws or any Release on or in connection with any Site. All such notices shall describe in reasonable detail the nature of the claim, action or proceeding and Lessee's proposed response thereto. In addition, Lessee shall provide to Lessor, promptly following receipt, copies of all written communications with any Authority relating to any Environmental Violation in connection with any Site. Lessee shall also promptly provide such detailed reports of any such material environmental claims as may reasonably be requested by Lessor or Agent. In the event that Lessor receives written notice of any pending or threatened claim, action or proceeding involving any Environmental Laws or any Release on or in connection with either Site, Lessor shall promptly give notice thereof to Lessee. For purposes of this paragraph, "Actual Knowledge" of Lessee shall mean the actual knowledge of Lessee's Director of Planning and Development, who is responsible for the day to day operations of the Sites.

ARTICLE XIV

PARTIAL TERMINATIONS

XIV.1 Partial Termination upon Certain Events. If any of the following occurs with respect to either Site:

(a) a Significant Condemnation occurs; or

(b) an Environmental Violation occurs or is discovered the cost of remediation of which would exceed either (i) \$15,000,000 with respect to either Site or (ii) with respect to either Site, if such Site is comprised of one or more legal parcels, \$5,000,000 for any portion of either Site constituting a legal parcel and (x) such violation has not been remediated within 180 days after the occurrence or discovery thereof, or (y) Lessee has

notified Lessor prior to the expiration of such 180 day period that the violation will not be remediated within such period;

and Lessor shall have given written notice (a "Termination Notice") to Lessee that, as a consequence of such event (x) the Lease Supplement relating to such Site is to be terminated and (y) this Lease is to be terminated with respect to such Site, then Lessee shall be obligated to purchase Lessor's interest in such affected Site on the next Payment Date after Lessee's receipt of the Termination Notice, by paying to Lessor an amount equal to the Purchase Amount for such affected Site.

XIV.2 Termination Procedures. On the date of the payment by Lessee of the Purchase Amount for the affected Site in accordance with Section 14.1(a) or

(b) or for the affected parcel in accordance with Section 14.1(b) (such date, the "Termination Date"), the Lease Supplement relating to each such affected Site or such affected parcel, as the case may be, shall terminate and this Lease shall terminate with respect to each such Site or each affected parcel, as the case may be, and, concurrent with Lessor's receipt of such payment,

(a) Lessor shall convey such Site to Lessee (or to Lessee's designee) "AS IS" and in its then present physical condition pursuant to Section 22.15 or, in the case of an affected parcel, Lessee shall purchase such parcel in accordance with Section 19.2; and

(b) in the case of a termination pursuant to Section 14.1(a), Lessor shall convey to Lessee any Net Condemnation Proceeds with respect to the Condemnation giving rise to the termination of this Lease with respect to such Site theretofore received by Lessor or at the request of Lessee, provided however, if Lessee has not previously paid the Purchase Amount to Lessor, other such amounts shall be applied against sums due hereunder.

ARTICLE XV

OWNERSHIP, GRANT OF LIEN AND FURTHER ASSURANCES

XV.1 Grant of Lien and Security Interest. Title to the Leased Property is held by and shall remain in Lessor, as security for the obligations of Lessee hereunder and under each of the other Operative Documents to which it is a party until such time as Lessee shall have fulfilled all of its obligations hereunder and under such other Operative Documents. Lessee hereby mortgages, grants, conveys, assigns, warrants, transfers, sets over and pledges to Lessor for the benefit of the Participants a mortgage and Lien against all of Lessee's right, title and interest, whether now or hereafter existing or acquired, in the Leased Property and the other Lease Collateral to secure the payment and performance of all obligations of Lessee now or hereafter existing under this Lease or any other Operative Document, TO HAVE AND TO HOLD the Lease Collateral and the rights and privileges hereby mortgaged unto Lessor, its successors and assigns for the uses and purposes set forth, until all the obligations hereunder and under such other Operative Documents are paid, performed and satisfied in full. Lessee shall, at its expense,

do any further act and execute, acknowledge, deliver, file, register and record any further documents (including the Deed of Trust) which Lessor or Agent may reasonably request in order to protect its title to and perfected Lien in the Leased Property and the other Lease Collateral, subject to no Liens other than Permitted Liens, and Lessor's rights and benefits under this Lease. Lessee shall promptly and duly execute and deliver to Lessor such documents and assurances (including the Deed of Trust) and take such further actions as Lessor or Agent may from time to time reasonably request in order to carry out more effectively the intent and purpose of this Lease and the other Operative Documents, to establish and protect the rights and remedies created or intended to be created in favor of Lessor hereunder and thereunder, and to establish, perfect and maintain the right, title and interest of Lessor in and to the Leased Property and the other Lease Collateral, subject to no Lien other than Permitted Liens, or of such Deed of Trust, financing statements or fixture filings or other documents with respect hereto as Lessor or Agent may from time to time reasonably request, and Lessee agrees to execute and deliver promptly such of the foregoing Deed of Trust, financing statements and fixture filings or other documents as may require execution by Lessee. To the extent permitted by Applicable Laws, Lessee hereby authorizes any such Deed of Trust, financing statements and fixture filings to be filed without the necessity of the signature of Lessee, and Lessor agrees to provide Lessee with copies of any such documents so filed. Lessor shall at such time as all of the obligations of Lessee under this Lease or any other Operative Documents have been paid or performed in full (other than Lessee's contingent obligations, if any, under Article VII of the Participation Agreement) execute and deliver termination statements, cancellations of lease or memoranda, quit claim deeds and other appropriate documentation reasonably requested by Lessee, all at Lessee's expense, to evidence Lessor's release of its Lien against the Lease Collateral.

ARTICLE XVI

LEASE EVENTS OF DEFAULT

The occurrence of any one or more of the following events, whether any such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body, shall constitute a "Lease Event of Default":

(a) Lessee shall fail to make any payment of (i) Base Rent when due and such failure shall continue for ten (10) days, (ii) any Supplemental Rent when due and such failure shall continue for ten (10) days after written demand therefor, or (iii) amounts payable pursuant to the exercise of the Sale Option when due, or (iv) amounts payable pursuant to Article XIV, Article XIX, Section 20.1(b) or Section 21.3 when due; or

(b) [intentionally omitted];

(c) Lessee or Guarantor shall default in the performance or observance of any term, covenant, condition or agreement on its part to be performed or observed under Sections 11.1 or 12.1 hereof or Sections 5.11, 5.13, or 5.14 of the Participation Agreement; or

(d) Subject to Lessee's rights under Section 21.4, Lessee shall fail to offer the Leased Property for sale in accordance with and satisfy each of the terms, covenants, conditions and agreements set forth at Articles XX and XXI in connection with and following its exercise of the Sale Option, including each of Lessee's obligations at Sections 21.1 and 21.2;

(e) any representation or warranty by Lessee or Guarantor in any Operative Document or in any certificate or document delivered to Lessor, or any Participant pursuant to any Operative Document shall have been incorrect in any material respect when made, deemed made or reaffirmed, as the case may be;

(f) (i) Guarantor shall fail to observe or perform any term, covenant or condition of Guarantor (not included in any other clause of this Article XVI) under (x) either Guarantee or (y) with respect to any other Operative Document, within ten (10) days after written notice thereof, or (ii) a Loan Event of Default shall have occurred;

(g) Lessee shall fail in any material respect to timely perform or observe any covenant, condition or agreement (not included in any other clause of this Article XVI) to be performed or observed by Lessee hereunder or under any other Operative Document and such failure shall continue for a period of 30 days (but in no event later than the Lease Expiration Date) after the earlier to occur of (i) written notice thereof from Lessor, Agent or any Participant or (ii) a Responsible Officer of Lessee has knowledge thereof, provided, however, in the case of a failure to comply with the requirements of Section 9.1(a), (b), (d), (e), or (f) or Section 9.2 of this Lease, if such failure cannot in Lessor's reasonably exercised judgment be cured in 30 days but can in Lessor's reasonably exercised judgment be cured in 90 days, Lessee may have an additional 60 days in which to cure such failure provided that Lessee begins to cure such failure within 30 days following notice or knowledge thereof as provided above and thereafter continues diligent efforts to cure such failure;

(h) (i) Lessee, Guarantor or any Material Subsidiary shall generally fail to pay, or admit in writing its general inability to pay, its debts as they become due, or shall voluntarily commence any case or proceeding or file any petition under any bankruptcy, insolvency or similar law or seeking dissolution, liquidation or reorganization or the appointment of a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business or to effect a plan or other arrangement with its creditors, or shall file any answer admitting the jurisdiction of the court and the material allegations of any involuntary petition filed against it in any bankruptcy, insolvency or

similar case or proceeding, or shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or shall consent to, or acquiesce in the appointment of, a receiver, trustee, custodian or liquidator for itself or a substantial portion of its property, assets or business, or (ii) corporate action shall be taken by Lessee, Guarantor or any Material Subsidiary for the purpose of effectuating any of the foregoing;

(i) involuntary proceedings or an involuntary petition shall be commenced or filed against Lessee, Guarantor or any Material Subsidiary under any bankruptcy, insolvency or similar law or seeking the dissolution, liquidation or reorganization of any such Person or the appointment of a receiver, trustee, custodian or liquidator for Lessee, Guarantor or any Material Subsidiary or of a substantial part of the property, assets or business of any such Person, or any writ, judgment, warrant of attachment, execution or similar process shall be issued or levied against a substantial part of the property, assets or business of Lessee, Guarantor or any Material Subsidiary and such proceedings or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded, within 60 days after commencement, filing or levy, as the case may be;

(j) any one or more judgments, writs or warrants of attachment, executions or similar processes involving an aggregate amount in excess of \$50,000,000 (after taking into account the actual amounts of third party insurance recoveries, offsets and contributions received, and amounts thereof not yet received but which the insurer thereon has acknowledged in writing its obligation to pay, without material conditions) shall be entered or filed against Lessee, Guarantor or any Material Subsidiary, and all such judgments and processes shall not be dismissed, vacated, stayed, discharged or bonded for a period of forty-five (45) days;

(k) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000;

(l) any Operative Document to which Lessee or Guarantor is a party or the security interest and lien granted under this Lease (except in accordance with its terms),

in whole or in part, terminates, ceases to be effective or ceases to be the legal, valid and binding enforceable obligation of Lessee or Guarantor, as applicable, or the security interest or lien securing Lessee's obligations under the Operative Documents, in whole or in part, ceases to be a perfected first priority security interest and lien, in each case unless due to any act or failure to act on the part of Lessor or Agent or (ii) Lessee or Guarantor shall directly or indirectly contest the effectiveness, validity, binding nature or enforceability of any Operative Document or any Lien granted under any Operative Document;

(m) Guarantor or any Subsidiary shall fail to make any payment in respect of any Material Obligation when due or within any applicable grace period;

(n) any event or condition shall occur which results in the acceleration of the maturity of, or the early termination, payment or satisfaction of, any Material Obligation;

(o) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act) of 35% or more of the outstanding shares of common stock of Guarantor; or during any period of 12 consecutive calendar months, individuals who were directors of Guarantor on the first day of such period cease to constitute a majority of the board of directors of Guarantor (other than as a result of death or disability).

ARTICLE XVII

ENFORCEMENT

XVII.1 Remedies. Upon the occurrence of any Lease Event of Default and the declaration thereof (but a Lease Event of Default shall be automatically deemed to occur, and no declaration thereof shall be required, upon the occurrence of a Lease Event of Default pursuant to clause (h) or (i) of Article XVI), the Lease Balance due hereunder without further act shall be accelerated and be deemed to be due and payable hereunder, and at any time thereafter, the Lessor may, subject to Lessee's right to purchase the Leased Property pursuant to Section 19.1 and so long as such Lease Event of Default is continuing, do one or more of the following as Lessor in its sole discretion shall determine, without limiting any other right or remedy Lessor may have on account of such Lease Event of Default.

(a) By notice to Lessee, Lessor may terminate Lessee's right to possession of the Leased Property subject to Lessee's right to purchase the Site under Section 19.1 of this Lease; provided, however (i) no reletting, reentry or taking of possession of any Leased Property (or any portion thereof) by Lessor will be construed as an election on Lessor's part to terminate this Lease unless a written notice of such intention is given to Lessee,

(ii) notwithstanding any reletting, reentry or taking of possession, Lessor may at any time thereafter elect to terminate this Lease for a continuing Lease Event of Default and (iii) no act or thing done by Lessor or any of its agents, representatives or employees and no agreement accepting a surrender of the Leased Property shall be valid unless the same be made in writing and executed by Lessor. A notice given in connection with unlawful detainer proceedings specifying a time within which to cure a default shall terminate Lessee's right to possession if Lessee fails to cure the default within the time specified in the notice. Upon termination of Lessee's right to possession and without further demand or notice, Lessee shall surrender possession and vacate the Leased Property and deliver possession thereof, and Lessor may re-enter the Leased Property and remove any persons in possession thereof. Upon such termination of Lessee's right to possession, the Lease shall terminate and Lessor may recover from Lessee:

(i) The worth at the time of award of the unpaid Rent under the Lease (including Basic Rent and Supplemental Rent) which had been earned at the time of termination;

(ii) The worth at the time of award of the amount by which the unpaid Rent under the Lease (including Basic Rent and Supplemental Rent) which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided;

(iii) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided;

(iv) Any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform Lessee's obligation under the Lease or which in the ordinary course of things would be likely to result therefrom, including the costs and expenses (including reasonable attorneys' fees, advertising costs and brokers' commissions) of recovering possession of the Leased Property, removing persons or property therefrom, placing the Leased Property in good order, condition, and repair, preparing and altering the Leased Property for reletting, and all other costs and expenses of reletting; and

(v) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

The "worth at the time of award" of the amounts referred to in clauses

(i) and (ii) above, is computed by allowing interest at the Overdue Rate. The "worth at the time of award" of the amount referred to in clause (iii) above is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

(b) Subject to Lessee's rights under Section 19.1, as more fully set forth in each Lease Supplement, Lessor may sell all or any portion of the Leased Properties at public or private sale, as Lessor may determine;

(c) Lessor may, at its option, elect not to terminate this Lease with respect to any Site or all of the Leased Property and continue to collect all Basic Rent, Supplemental Rent, and all other amounts due to Lessor (together with all costs of collection) and enforce Lessee's obligations under this Lease as and when the same become due, or are to be performed, and at the option of Lessor, upon any abandonment of any Leased Property by Lessee or re-entry of same by Lessor, Lessor may enforce, by suit or otherwise, all other covenants and conditions hereof to be performed or complied with by Lessee hereunder and to exercise all other remedies permitted by Section 1951.4 of the California Civil Code or any amendments thereof or any successor laws which replace such Section 1951.4;

(d) Unless all of the Leased Property has been sold in its entirety, Lessor may, whether or not Lessor shall have exercised or shall thereafter at any time exercise any of its rights under clause

(b), (c) or (d) of this Section 17.1 with respect to the Leased Property or any portion thereof, demand, by written notice to Lessee specifying a date (a "Termination Date") not earlier than five (5) days after the date of such notice, that Lessee purchase, on such Termination Date for a price equal to the Purchase Amount, the Leased Property subject to this Lease, in accordance with the provisions of Section 19.3;

(e) Lessor may exercise any other right or remedy that may be available to it under Applicable Laws, including any and all rights or remedies under any other Operative Document, or proceed by appropriate court action (legal or equitable) to enforce the terms hereof or to recover damages for the breach hereof. Separate suits may be brought to collect any such damages for any period(s), and such suits shall not in any manner prejudice Lessor's right to collect any such damages for any subsequent period(s), or Lessor may defer any such suit until after the expiration of the Lease Term, in which event such suit shall be deemed not to have accrued until the expiration of the Lease Term;

(f) Lessor may retain and apply against the Lease Balance or any other amounts payable under the Operative Documents all sums which Lessor would, absent such Lease Event of Default, be required to pay to, or turn over to, Lessee pursuant to the terms of this Lease; or

(g) If a Lease Event of Default shall have occurred and be continuing, Lessor, to the extent permitted by Applicable Laws, as a matter of right and with notice to Lessee, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Leased Property or any portion thereof, and Lessee hereby irrevocably consents to any such appointment. Any such receiver(s) shall have all of the usual

powers and duties of receivers in like or similar cases and all of the powers and duties of Lessor in case of entry, and shall continue as such and exercise such powers until the date of confirmation of the sale of such Property unless such receivership is sooner terminated.

(h) To the maximum extent permitted by Applicable Laws, Lessee hereby waives the benefit of any appraisal, valuation, stay, extension, reinstatement and redemption laws now or hereafter in force and all rights of marshaling in the event of any sale of the Leased Property, any portion thereof or any interest therein.

(i) Lessor shall be entitled to enforce payment of the indebtedness and performance of the obligations secured hereby and to exercise all rights and powers under this instrument or under any of the other Operative Documents or other agreement or any Applicable Laws now or hereafter in force, notwithstanding some or all of the obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, security agreement, pledge, lien, assignment or otherwise. Neither the acceptance of this instrument nor its enforcement, shall prejudice or in any manner affect Lessor's right to realize upon or enforce any other security now or hereafter held by Lessor, it being agreed that Lessor shall be entitled to enforce this instrument and any other security now or hereafter held by Lessor in such order and manner as Lessor may determine in its absolute discretion. No remedy herein conferred upon or reserved to Lessor is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by any of the Operative Documents to Lessor or to which Lessor may otherwise be entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Lessor. In no event shall Lessor, in the exercise of the remedies provided in this Lease (including in connection with the assignment of rents to Lessor, or the appointment of a receiver and the entry of such receiver onto the Sites or any portion thereof), be deemed a "mortgagee in possession", and the Lessor shall not in any way be made liable for any act, either of commission or omission, in connection with the exercise of such remedies, except for the exercise of the remedies set forth Sections 17.1(c) and (j), within thirty (30) days after the declaration of the occurrence of a Lease Event of Default in contravention of Lessee's purchase right set forth in Section 19.1.

(j) Foreclosure; Power of Sale. Lessee hereby grants to Chicago Title Company, as trustee (together with all successor trustees, the "Trustee"), IN TRUST for the benefit of Lessor as security for the obligations hereunder A SECURITY INTEREST AND LIEN against the Leased Property WITH POWER OF SALE, and that, upon the occurrence of any Lease Event of Default, Lessor shall have the power and authority, to the extent provided by Applicable Laws, after proper notice and lapse of such time as may be required by Applicable Laws, to cause the Trustee to sell the Leased Property, or any portion thereof, at the time and place of sale fixed by Lessor in said notice of sale, either as a whole, or in separate lots or parcels or items and in such order as Lessor may elect, at

auction to the highest bidder for cash in lawful money of the United States payable at the time of sale; accordingly, it is acknowledged that A POWER OF SALE HAS BEEN GRANTED IN THIS INSTRUMENT; A POWER OF SALE MAY ALLOW LESSOR TO TAKE THE APPLICABLE LEASED PROPERTY AND SELL IT WITHOUT GOING TO COURT IN A FORECLOSURE ACTION UPON DEFAULT BY LESSEE UNDER THIS INSTRUMENT, and (ii) upon the occurrence of a Lease Event of Default, Lessor, in lieu of or in addition to exercising any power of sale hereinabove given, may proceed by a suit or suits in equity or at law, whether for a foreclosure hereunder, or for the sale of the Leased Property, or against Lessee on a recourse basis for the Lease Balance and all accrued and unpaid interest on the Loans, all accrued and unpaid Yield on the Certificate Amounts, and all other amounts owing by Lessee under the Operative Documents with respect to such Leased Property, or for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for the appointment of a receiver pending any foreclosure hereunder or the sale of the Leased Property, or for the enforcement of any other appropriate legal or equitable remedy.

Lessor acknowledges and agrees that upon the declaration of a Lease Event of Default the amount due and owing by it to Lessor hereunder shall be the Lease Balance and that to the maximum extent permitted by Applicable Laws, Lessee waives any right to contest the Lease Balance as the liquidated sum due upon acceleration of this Lease.

XVII.2 Proceeds of Sale; Deficiency. All payments received and amounts held or realized by Lessor at any time when a Lease Event of Default shall exist and after the Lease Balance shall have been accelerated pursuant to this Article XVII as well as all payments or amounts then held or thereafter received by Lessor and the proceeds of sale pursuant to Section 17.1(j) or pursuant to either Lease Supplement shall be distributed forthwith upon receipt by Lessor in accordance with Article III of the Loan Agreement.

XVII.3 Deed of Trust Remedies. Without limiting any other remedies set forth in this Lease, Lessor and Lessee agree that upon the occurrence of a Lease Event of Default (irrespective of whether a Loan Event of Default has occurred or is occurring), Lessor and Agent shall have all the rights and may pursue any of the remedies provided to Agent in the Deed of Trust, the terms and provisions of which Deed of Trust are incorporated herein by this reference.

XVII.4 Remedies Cumulative; No Waiver; Consents. To the extent permitted by, and subject to the mandatory requirements of, Applicable Laws, each and every right, power and remedy herein specifically given to Lessor or otherwise in this Lease shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by Lessor, and the exercise or the beginning of the exercise of any power or remedy shall not be construed to be a waiver of the

right to exercise at the same time or thereafter any other right, power or remedy. Without limiting the foregoing, Lessee acknowledges that Lessor may proceed against all or any part of the Leased Property in exercising any remedies in respect of real property or personal property, or both. No delay or omission by Lessor in the exercise of any right, power or remedy or in the pursuit of any remedy shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of Lessee or be an acquiescence therein. Lessor's consent to any request made by Lessee shall not be deemed to constitute or preclude the necessity for obtaining Lessor's consent, in the future, to all similar requests. No express or implied waiver by Lessor of any Lease Event of Default shall in any way be, or be construed to be, a waiver of any future or subsequent Lease Default or Lease Event of Default. To the extent permitted by Applicable Laws and subject to the provisions of Section 17.1, Lessee hereby waives any rights now or hereafter conferred by statute or otherwise that may require Lessor to sell, lease or otherwise use the Leased Property, the other Lease Collateral or any part thereof in mitigation of Lessor's damages upon the occurrence of a Lease Event of Default or that may otherwise limit or modify any of Lessor's rights or remedies under this Article XVII.

ARTICLE XVIII

RIGHT TO PERFORM FOR LESSEE

If Lessee shall fail to perform or comply with any of its agreements contained herein and in Lessor's reasonably exercised judgment Lessee is not acting diligently and appropriately to perform or comply with such agreements, Lessor may, but shall not be obligated to, on five (5) Business Days' prior notice to Lessee (except that in the case of an Emergency, Lessee shall permit Lessor so to perform or comply on less than five (5) Business Days' notice unless Lessee has a good faith reason not to permit Lessor to do so), perform or comply with such agreement, and Lessor shall not thereby be deemed to have waived any default caused by such failure, and the amount of such payment and the amount of the out-of-pocket and reasonably allocated internal expenses of Lessor (including reasonable attorneys' fees and expenses) incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest thereon at the Overdue Rate, shall be deemed Supplemental Rent, payable by Lessee to Lessor upon demand.

ARTICLE XIX

EARLY TERMINATION OPTION AND OBLIGATION TO PURCHASE

XIX.1 Early Termination Option. Without limitation of Lessee's purchase obligation pursuant to Section 19.3, on any Business Day, Lessee may, at its option, purchase one or both Sites or, in the case of Section 19.2 below, a portion of a Site (the "Early Termination Option") at a price equal to the Purchase Amount; Lessee's right to purchase all or a portion of the Leased

Property pursuant to this Section 19.1 or Section 19.2 below shall terminate automatically upon (i) occurrence of a Lease Event of Default pursuant to clauses (h) or (i) of Article XVI or (ii) the occurrence of any other Lease Event of Default, unless in the case of a Lease Event of Default described in this Section 19.1(ii) Lessee delivers a written notice of its election to exercise this option to purchase all of the Leased Property not less than five

(5) days prior to the date of the purchase and consummates the purchase within thirty (30) days following the occurrence and declaration of such Lease Event of Default described in this Section 19.1(ii) (except that if a Lease Event of Default pursuant to clause (h) or (i) of Article XVI has also occurred, then such 30-day period shall be deemed to commence on the earlier of (x) the date of the entry of order for relief or (y) the date of such declaration). In order to exercise its option to purchase all or a portion of the Leased Property pursuant to this Section 19.1 or Section 19.2 below and except as provided for in item

(ii) of the foregoing sentence, Lessee shall give to Lessor not less than sixty

(60) days' prior written notice of such election to exercise, which election shall become irrevocable if not revoked or extended by written notice to Lessor not later than ten (10) days prior to the end of such sixty (60) day period. Upon receipt of the Purchase Amount, Lessor shall transfer the Leased Property to Lessee, or its assigns, pursuant to Section 22.15, on the date set forth in the written notice delivered by Lessee pursuant to this Section 19.1.

XIX.2 Partial Site Purchases. In addition to Lessee's option to purchase one or both Sites as provided above, Lessee also shall have the option to purchase a portion of a Site upon satisfaction of the following conditions: (i) Lessee shall deliver to Lessor, Agent and the Participants an Appraisal setting forth the Fair Market Value (as separate and independent pieces of property) of the portion being purchased by Lessee as of the date of purchase and the remaining portion of the applicable Site, (ii) the purchase price for the portion of a Site being purchased shall be equal to the product of (A) a fraction the numerator of which is the Fair Market Value of the portion being purchased as determined in such Appraisal, and the denominator of which is the sum of the Fair Market Values of the portion being purchased and remaining portion of the Site as determined in such Appraisal and (B) the Site Balance for such Site, (iii) the portion of the Site being purchased by Lessee and the remaining portion shall each constitute a legal parcel under Applicable Laws regarding subdivision, (iv) the remaining portion of the Site shall not be dependent upon the portion being sold for services, utilities, parking or access unless perpetual easements have been granted for the benefit of the remaining portion of the Site in form satisfactory to the Required Participants and otherwise in accordance with Applicable Laws regarding subdivision and zoning,

(v) any improvements situated on the remaining portion of the Site shall be situated entirely on the remaining portion of the Site and no portion of the improvements situated on the remaining portion of the Site shall be situated on the portion of the Site being purchased by Lessee, (vi) Lessee shall deliver to Lessor, Agent and the Participants a Title Policy complying with the requirements of Section 3.1(l) of the Participation Agreement in an amount equal to the Site Balance for such Site less the purchase price received for the portion of the Site being sold, with such endorsements as reasonably requested by Lessor or Agent, including endorsements with respect to the subdivision map act and zoning, (vii) Lessee shall execute and deliver such modifications, amendments or supplements to the Operative Documents to reflect the sale of such real property and the payment of the purchase

price thereof as reasonably requested by Lessor or Agent. In the event either Site is re-parcelized, and in connection with or after the re-parcelization Lessee obtains an Appraisal of each parcel comprising the Site, then Lessee may designate such post-re-parcelization Appraisal as the appraisal to be used in connection with any subsequent purchase by Lessee of any of such parcels for the purpose of determining the purchase price for such parcel being purchased, and no new Appraisal need be obtained so long as the configuration of the parcels does not change.

XIX.3 Required Purchase. Lessee shall be obligated to purchase for the Purchase Amount all of Lessor's interest in the Leased Property (a) automatically and without notice upon the occurrence of any Lease Event of Default specified in clauses(h) or (i) of Article XVI, or (b) immediately upon written demand of Lessor upon the occurrence of any other Lease Event of Default pursuant to and for the amount described in Section 17.1(d).

ARTICLE XX

END OF TERM OPTIONS

XX.1 End of Term Options. At least 180 days but not more than 360 days before the last day of the Base Term and the Renewal Term, if effective, Lessee shall, by delivery of written notice to Lessor and Agent, exercise one of the following options:

- (a) Renew this Lease with respect to all of the Leased Property then subject to the Lease for one additional five-year period (the "Renewal Option") on the terms and conditions set forth herein; provided, however, such Renewal Option shall be available only at the end of the Base Term; or
- (b) Purchase for cash for the Purchase Amount all, but not less than all, of the Leased Property then subject to the Lease on the Lease Expiration Date (the "Purchase Option"); and if Lessee shall have elected to purchase the Leased Property, Lessor shall, upon the payment to Lessor of the Purchase Amount then due and payable by Lessee under the Operative Documents, transfer all of Lessor's right, title and interest in and to the Leased Property pursuant to Section 22.15; or
- (c) Sell on behalf of Lessor for cash to a purchaser all, but not less than all, of the Leased Property then subject to the Lease (the "Sale Option"). Lessee's right to sell the Leased Property pursuant to the Sale Option shall be conditioned upon and subject to the fulfillment by Lessee of each of the terms and conditions set forth in Article XXI.

XX.2 Election of Options. If Lessee fails to make a timely election pursuant to Section 20.1 at the end of the Base Term; or, if effective, the Renewal Term, or if as of the end of the Base Term Lessee has elected the Renewal Term pursuant to Section 20.1(a) but fails to satisfy the conditions to renewal set forth at Section 20.3, Lessee shall be deemed to have elected the

Purchase Option. In addition, the Sale Option shall automatically be revoked if there exists a Lease Event of Default or Significant Condemnation at any time after the Sale Option is properly elected or Lessee fails to comply with any of the terms and conditions set forth at Article XXI and Lessor shall be entitled to exercise all rights and remedies provided in Article XVII. Lessee may not elect the Sale Option if there exists on the date the election is made a Lease Default, Lease Event of Default or a Significant Condemnation.

XX.3 Lease Renewal. Subject to the conditions set forth herein, Lessee may, by written notice to Lessor, each Participant and Agent given not earlier than 360 days and not later than 180 days prior to the fifth (5th) anniversary of the Advance Date, request (a "Renewal Request") that the Lease Term be extended to the day immediately preceding the tenth (10th) anniversary of the Advance Date (the "Renewal Option"). Such renewal shall be subject to and conditioned upon the following:

(a) on both the date of the Renewal Request and the date of the commencement of the Renewal Term, no Lease Default or Lease Event of Default shall have occurred and be continuing, and Lessee shall be deemed to have represented the same to Lessor;

(b) Lessee shall not have exercised the Sale Option;

(c) the Final Maturity Date shall have been extended pursuant to Section 2.13 of the Participation Agreement such that the Renewal Term will expire on or before the extended Final Maturity Date; and

(d) on both the date of the Renewal Request and the date such renewal becomes effective, either:

(i) Guarantor shall have a senior unsecured debt rating (or if no public debt is outstanding, a private letter rating) of at least BBB by S&P (or Ba3 by Moody's) after giving effect to such renewal and the extension of the Final Maturity Date, and Guarantor's rating shall not be on credit watch with negative implications; or

(ii) prior to the date such renewal becomes effective, Lessee shall have provided to Agent for the sole benefit of the Certificate Purchasers a valid and perfected first Lien in cash or cash equivalents in an aggregate amount equal to the Certificate Amounts to secure Certificate Trustee's obligations to repay the Certificate Amounts, accrued Yield and all other amounts owing to the Certificate Purchasers. The documentation securing such security arrangement shall be in form and substance reasonably satisfactory to the Certificate Purchasers and be accompanied by opinions of counsel of Lessee regarding the validity, perfection and priority of such interests.

ARTICLE XXI

SALE OPTION

XXI.1 Sale Option Procedures. If Lessee elects the Sale Option, Lessee shall use its best commercial efforts as nonexclusive agent for Lessor to obtain the highest all cash purchase price for the purchase of all of the Leased Property then subject to the Lease, and in the event Lessee receives any bid, Lessee shall, within five (5) Business Days after receipt thereof, certify to Lessor in writing the amount and terms of such bid and the name and address of the party submitting such bid. Lessee shall bear all costs and expenses in connection with any such bidding and sale process pursuant to this Section 21.1 as well as all costs and expenses incurred by any party (including a buyer or potential buyer) to place the Leased Property in the condition required by

Section 9.1. None of the foregoing costs or expenses shall be deducted from the Sale Proceeds or serve to reduce the purchase price to be paid for the Leased Property. With respect to any sale made pursuant to this Article XXI and so long as no Lease Event of Default shall have occurred and be continuing: (i) Lessee shall transfer all of Lessee's right, title and interest in the Leased Property, or cause the Leased Property to be transferred, to the bidder, if any, which shall have submitted the highest all cash bid therefor in the same manner and in the same condition and otherwise in accordance with all of the terms of this Lease; (ii) subject to the prior or current payment by Lessee of all amounts due under clause (iii) of this sentence, Lessor shall comply with any conditions to transfer set forth in Section 21.2 and the transfer provisions of Section 22.15 in order to transfer Lessor's right, title and interest in and to the Leased Property for cash to such bidder, such transfer to be made on the Lease Expiration Date with respect to any bid accepted prior to such date or on the date provided for at Section 21.4; and (iii) Lessee shall pay to Lessor on the earlier of the Lease Expiration Date or immediately prior to such sale all of the amounts required pursuant to Section 21.3. All costs related to a sale and delivery pursuant to this Section 21.1, including the cost of sales agents retained by Lessee, delivery of documents, filing and documentary transfer fees, Taxes relating to or arising as a result of such transfer, title insurance, certification and testing of the Leased Property, environmental audits, legal costs, costs of notices, any advertisement or other similar costs shall be borne entirely by Lessee, without regard to whether such costs were incurred by Lessor, Lessee or any potentially qualified buyer. Neither Lessor nor any Participant shall have any responsibility for procuring or financing any purchaser.

XXI.2 Sale. Upon a sale of the Leased Property on the Lease Expiration Date pursuant to Section 21.1 or following the Lease Expiration Date pursuant to

Section 21.4, Lessee shall, at Lessee's own expense, transfer the Leased Property to the independent purchaser thereof free and clear of all Liens other than Permitted Exceptions, in as good condition as it was on the Advance Date, ordinary wear and tear excepted, and in compliance with all Applicable Laws (and in any event without (x) any asbestos installed or maintained in any part of the Leased Property, (y) any polychlorinated biphenyls (PCBs) in, on or used, stored or located at the Leased Property, and (z) any other Hazardous Material). As a condition to Lessee's rights hereunder, Lessee shall

obtain and make all necessary Governmental Actions required by Lessee or Lessor in connection with any third party sale and satisfy the requirements of Section 5.16 of the Participation Agreement with respect to the Site Improvements. Lessee shall cooperate with the independent purchaser of the Leased Property in order to facilitate the ownership and operation of the Leased Property by such purchaser after the date of the sale or transfer. Prior to the Lease Expiration Date, Lessee shall furnish to Certificate Trustee, Agent, the Participants and the independent purchaser hereunder a reasonably current Environmental Audit dated no earlier than 45 days prior to the Lease Expiration Date and addressed to each such party in form and substance satisfactory to such parties. The Environmental Audit shall be prepared by environmental consultants selected by the Lessor at the direction of and in the reasonable discretion of the Required Participants. If the Leased Property is sold during the Extended Remarketing Period, such Environmental Audit shall be updated by Lessee to a date not later than forty-five (45) days prior to the date of such sale and shall be subject to the reevaluation of the Certificate Trustee, the Agent, the Participants and, if applicable, the independent purchaser, on the same basis as provided for in the previous sentences. If any such Environmental Audit indicates any exceptions, Lessee also shall deliver prior to the Lease Expiration Date a Phase II environmental assessment by such environmental consultant and a written statement by such environmental consultant indicating that all such exceptions have been remedied in compliance with Applicable Laws. If Lessee exercises the Sale Option, Lessor shall at Lessee's expense be entitled to perform such investigation, including obtaining reports of engineers and other experts as to the condition and state of repair and maintenance of the Leased Property and as to the compliance of the Leased Property with Applicable Laws including Environmental Laws. The obligations of Lessee under this Section 21.2 shall survive the expiration or termination of this Lease.

XXI.3 Application of Sale Proceeds and Recourse Payments.

(a) On the Lease Expiration Date in connection with an exercise of the Sale Option, Lessee shall pay to Lessor all Rent then due together with all other amounts due and payable by Lessee to Lessor, Agent, any Participant or any Indemnitee. If a sale of the Leased Property is completed on the Lease Expiration Date, Lessee also shall pay to Lessor, as Supplemental Rent, from the Sale Proceeds the aggregate outstanding Lease Balance as of the Lease Expiration Date (as determined after the payment of all Rent due on such date). If the Sale Proceeds exceed the Lease Balance as of the Lease Expiration Date, Lessee shall retain the portion of the Sale Proceeds in excess thereof. If the Sale Proceeds are less than the aggregate outstanding Lease Balance, Lessee shall pay or shall cause to be paid to Lessor, as Supplemental Rent, on the Lease Expiration Date, in addition to the Sale Proceeds, an additional amount equal to the amount that the Lease Balance exceeds the Sale Proceeds.

(b) The obligation of Lessee to pay the amounts determined pursuant to Section 21.3(a) shall be recourse obligation of Lessee, and such payments by Lessee shall not limit any other obligation of Lessee under the Operative Documents, including pursuant to Article VII of the Participation Agreement.

XXI.4 Failure to Sell Premises. If Lessee shall exercise the Sale Option and shall fail to sell all of the Leased Property on the Lease Expiration Date in accordance with and subject to the provisions of Section 21.1, then Lessee and Lessor hereby agree as follows:

(a In addition to the amounts required to be paid by Lessee pursuant to the first sentence of Section 21.3(a), Lessee also shall pay to Lessor on the Lease Expiration Date an amount equal to the Lease Balance and Lessor shall apply such amount to a reduction of the amounts outstanding under the Notes and Certificates.

(b Lessee shall continue to use its best commercial efforts as non-exclusive agent for Lessor to sell the Leased Property on behalf of Lessor in accordance with this Article XXI for the period (the "Extended Remarketing Period") commencing on the Lease Expiration Date and ending on the earlier of

(i) the sale of all of the Leased Property in accordance with the provisions of this Article XXI, (ii) the delivery of a written notice from Lessee to Lessor pursuant to which Lessee notifies Lessor of its election to terminate its remarketing rights hereunder, or (iii) the first anniversary of the Lease Expiration Date. During the Extended Remarketing Period, Lessee shall have the right to continue to occupy the Leased Property and this Lease shall remain in full force and effect in accordance with all of its terms other than Lessee's obligations to pay Basic Rent. Lessee shall remain bound by all of the obligations and duties of Lessee under this Lease. On the last day of the Extended Remarketing Period, Lessee shall pay to Lessor an amount equal to all accrued and unpaid Supplemental Rent, and if Lessee has not sold all of the Leased Property, Lessor shall transfer any remaining Leased Property to Lessee pursuant to Section 22.15. During the Extended Remarketing Period, Lessee may sell the Leased Property to one or more Persons pursuant to one or more sale transactions, provided that each such sale must be for one or more legal parcels. Each such sale must also comply with each of the requirements under this Article XXI with respect to each such parcel sold. Notwithstanding the foregoing, all such sales shall be consummated and Lessor shall transfer its interest pursuant to Section 22.15 on one date during the Extended Remarketing Period. Lessee shall give written notice to Lessor not less than thirty (30) days prior to the date of such sale. Following Lessee's payment of all Supplemental Rent as provided for in the preceding sentence, the Sales Proceeds resulting from such sale or sales shall be retained by and be the property of Lessee. All costs and expenses incurred by any Person, including Lessor, Agent or any Participant in connection with any sale or transfer of the Leased Property to Lessee or any third party, shall be borne by and be the sole responsibility of Lessee.

(c Lessor reserves all rights under this Lease and the other Operative Documents arising out of Lessee's breach of any provisions of this Lease (including this Article XXI), whether occurring prior to, on or after the Lease Expiration Date, including Lessee's breach of any of its obligations under this Article XXI, including the right to sue Lessee for damages.

(d To the greatest extent permitted by Applicable Laws, Lessee hereby unconditionally and irrevocably waives, and releases Lessor from, any right to require Lessor during or following the Extended Remarketing Period to assist in or cause a sale of the Leased

Property or from any Claims that Lessee was unable to sell the Leased Property at all or for any minimum purchase price or on any particular terms and conditions, Lessee hereby agreeing that if Lessee shall elect the Sale Option, its ability to sell the Leased Property on or prior to the Lease Expiration Date and to cause any Person to submit a bid to Lessor pursuant to Section 21.1 shall constitute full and complete protection of Lessee's interest hereunder.

ARTICLE XXII

MISCELLANEOUS

XXII.1 Binding Effect; Successors and Assigns; Survival. The terms and provisions of this Lease, and the respective rights and obligations hereunder of Lessor, Lessee, Agent, Arranger and the Participants shall be binding upon them and their respective successors, legal representatives and assigns (including, in the case of Lessor, any Person to whom Lessor may transfer the Leased Property or any interest therein in accordance with the provisions of the Operative Documents), and inure to their benefit and the benefit of their respective permitted successors, legal representatives and assigns.

XXII.2 Severability. Any provision of this Lease that shall be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction, and Lessee shall remain liable to perform its obligations hereunder except to the extent of such unenforceability. To the extent permitted by Applicable Laws, Lessee hereby waives any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

XXII.3 Notices. Unless otherwise specified herein, all consents, notices, requests, demands or other communications to or upon the respective parties hereto shall be in writing and shall be delivered and shall be deemed to have been given in accordance with Section 9.3 of the Participation Agreement.

XXII.4 Amendment; Complete Agreements. Neither this Lease nor any of the terms hereof may be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against which the enforcement of the termination, amendment, supplement, waiver or modification shall be sought. This Lease, together with the other Operative Documents, is intended by the parties as a final expression of their agreement and as a complete and exclusive statement of the terms thereof, all negotiations, considerations and representations between the parties having been incorporated herein and therein. No course of prior dealings between the parties or their officers, employees, agents or Affiliates shall be relevant or admissible to supplement, explain, or vary any of the terms of this Lease or any other Operative Document. Acceptance of, or acquiescence in, a course of performance rendered

under this or any prior agreement between the parties or their Affiliates shall not be relevant or admissible to determine the meaning of any of the terms of this Lease or any other Operative Document. No representations, undertakings, or agreements have been made or relied upon in the making of this Lease other than those specifically set forth in the Operative Documents.

XXII.5 Headings. The Table of Contents and headings of the various Articles and Sections of this Lease are for convenience of reference only and shall not modify, define or limit any of the terms or provisions hereof.

XXII.6 GOVERNING LAW. THIS LEASE HAS BEEN DELIVERED IN, AND SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF, THE STATE OF CALIFORNIA.

XXII.7 Discharge of Lessee's Obligations by its Affiliates. Lessor agrees that performance of any of Lessee's obligations hereunder by one or more of its Affiliates or one or more sublessees of the Leased Property or any part thereof shall constitute performance by Lessee of such obligations to the same extent and with the same effect hereunder as if such obligations were performed by Lessee, but no such performance shall excuse Lessee from any obligation not performed by it or on its behalf under the Operative Documents.

XXII.8 Liability of Lessor Limited. The parties hereto agree that Bank shall have no personal liability whatsoever to Lessee or its respective successors and assigns for any Claim based on or in respect of this Lease or any of the other Operative Documents or arising in any way from the transactions contemplated hereby or thereby; provided, however, that Bank shall be liable in its individual capacity XXII.8.1 for its own willful misconduct or gross negligence (or negligence in the handling of funds), XXII.8.2 for liabilities that may result from the incorrectness of any representation or warranty expressly made by Bank in its individual capacity in Section 4.3 of the Participation Agreement or from the failure of Bank to perform Bank's covenants and agreements set forth in Section 6.5 of the Participation Agreement, or XXII.8.3 for any Tax based on or measured by any fees, commission or compensation received by Bank for acting as Lessor as contemplated by the Operative Documents. It is understood and agreed that, except as provided in the preceding proviso: (a) Bank shall have no personal liability under any of the Operative Documents as a result of acting pursuant to and consistent with any of the Operative Documents; (b) all obligations of Bank to Lessee are solely nonrecourse obligations except to the extent that Bank has received payment from others; (c) all such personal liability of Bank is expressly waived and released as a condition of, and as consideration for, the execution and delivery of the Operative Documents by Bank; and (d) this Lease is executed and delivered by Bank solely in the exercise of the powers expressly conferred upon Bank as Lessor under the Trust Agreement.

XXII.9 Estoppel Certificates. Each party hereto agrees that at any time and from time to time during the Lease Term, it will promptly, but in no event later than thirty (30) days after request by the other party hereto, execute, acknowledge and deliver to such other party or to any

prospective purchaser (if such prospective purchaser has signed a commitment letter or letter of intent to purchase the Leased Property or any part thereof or to purchase any Note or Certificate), assignee or mortgagee or third party designated by such other party, a certificate stating (a) that this Lease is unmodified and in force and effect (or if there have been modifications, that this Lease is in force and effect as modified, and identifying the modification agreements); (b) the date to which Basic Rent has been paid; (c) in the case of an estoppel certificate to be given by Lessee, whether or not there is any existing default by Lessee in the payment of Basic Rent or any other sum of money hereunder, and whether or not there is any other existing Lease Default or Lease Event of Default with respect to which a notice of default has been served, and, if there is any such default, specifying the nature and extent thereof; (d) in the case of an estoppel certificate to be given by Lessee, whether or not, to the knowledge of Lessee after due inquiry and investigation, there are any purported setoffs, defenses or counterclaims against enforcement of the obligations to be performed hereunder existing in favor of Lessee; and (e) other items that may be reasonably requested; provided, that no such certificate may be requested unless the requesting party has a good faith reason for such request. In addition, Lessee, promptly, but in no event later than thirty (30) days after request by any other party hereto, shall obtain and deliver to such other party or to any prospective purchaser (if such prospective purchaser has signed a commitment letter or letter of intent to purchase the Leased Property or any part thereof or to purchase any Note or Certificate), assignee, mortgagee or third party designated by such other party, an estoppel certificate from each subtenant under each sublease containing such items as reasonably requested by the party requesting the same; provided, that no such certificate may be requested unless the requesting party has a good faith reason for such request.

XXII.10 No Joint Venture. Any intention to create a joint venture or partnership relation hereunder or pursuant to any other Operative Document between Lessor and Lessee is hereby expressly disclaimed.

XXII.11 No Accord and Satisfaction. The acceptance by Lessor of any sums from Lessee (whether as Basic Rent or otherwise) in amounts which are less than the amounts due and payable by Lessee hereunder is not intended, nor shall be construed, to constitute an accord and satisfaction of any dispute between Lessor and Lessee regarding sums due and payable by Lessee hereunder, unless the Required Participants specifically deem it as such in writing.

XXII.12 No Merger. In no event shall the leasehold estate of Lessee hereunder or the rights and interests of the holder of any Notes or certificates secured by a Lien in this Lease, merge with any interests, estates or rights of Lessor in or to the Leased Property, it being understood that such leasehold estate of Lessee hereunder and, the rights and interests of the holder of any Notes or certificates secured by a Lien in this Lease, shall be deemed to be separate and distinct from Lessor's interests, estates and rights in or to the Leased Property, notwithstanding that any such interests, estates or rights shall at any time or times be held by or vested in the same Person.

XXII.13 Successor Lessor. Lessee agrees that, in the case of the appointment of any successor certificate trustee pursuant to the Trust Agreement, such successor certificate trustee shall, upon written notice by such successor certificate trustee to Lessee, succeed to all the rights, powers and title of Lessor hereunder and shall be deemed to be Lessor for all purposes hereof and without in any way altering the terms of this Lease or Lessee's obligations hereunder.

XXII.14 Survival. The obligations of Lessee to be performed under this Lease prior to the Lease Expiration Date and the obligations of Lessee pursuant to Sections 4.1, 4.2, 4.4, Article V, Article VI (the last sentence thereof), Article XVII, Article XVIII, Article XX, Article XXI and Article XXII hereof and the obligations of Lessee under the other Operative Documents which by their terms survive shall survive the expiration or termination of this Lease. The extension of any applicable statute of limitations by Lessor, Lessee, any Participant or any other Indemnatee shall not affect such survival.

XXII.15 Transfer of Leased Property.

(a) Whenever pursuant to any provision of this Lease Lessor is required to transfer the Leased Property to Lessee or to an independent third party, such transfer shall be made at Lessee's expense by the transfer by a deed without covenants or warranties of title, except for matters arising by, through or under Lessor, of all of Lessor's interest in and to the Leased Property on an "as is, where is, with all faults" basis free and clear of all Lessor Liens and otherwise without recourse, representation or warranty of any kind, and together with the due assumption by Lessee (or such third party) of, and due release of Lessor from, all obligations relating to the Leased Property or any of the Operative Documents. In connection with any transfer to an independent third party, Lessee shall execute and deliver such customary and reasonable documents, certificates and estoppels as may be required to facilitate the transfer of the Leased Property. Any provision in this Lease or any other Operative Document to the contrary notwithstanding, Lessor shall not be obligated to make any such transfer until Lessor and the Participants have received all Rent and other amounts due and owing hereunder and under the other Operative Documents including any Break Funding Amount. At or subsequent to the transfer or return of the Leased Property, Lessee will provide Lessor with such lien and title searches as Lessor may reasonably request to demonstrate to Lessor's satisfaction that the Leased Property is subject to no Liens for which Lessor would be liable under any warranties of title.

(b) Lessee may assign to another Person its right, upon a purchase by Lessee, to take title to the Leased Property pursuant to Section 20.1(b); provided, that (i) Lessee shall exercise any option, (ii) such assignee shall be bound by the provisions of Section 20.1(b), (iii) Lessee shall have represented by an instrument in writing and delivered to Lessor that all necessary Governmental Actions with respect to such transfer, including the purchase of the Leased Property by any other Person as contemplated herein, have been obtained or made, as applicable, and (iv) no such assignment shall release Lessee or Guarantor from its obligations under the Operative Documents, and Lessee shall remain personally liable to Lessor for the payment of all amounts due under any such Section and this Section 22.15.

XXII.16 Enforcement of Certain Warranties.

(a) Unless a Lease Event of Default shall have occurred and be continuing, Lessor authorizes Lessee (directly or through agents), at Lessee's expense, to assert, during the Lease Term, all of Lessor's rights (if any) under any applicable warranty and any other claim that Lessee or Lessor may have under the warranties provided to Lessor in connection with the Leased Property and Lessor agrees to cooperate, at Lessee's expense, with Lessee and its agents in asserting such rights. Any amount recovered by Lessee under any such warranties shall be paid to Lessee, subject to Section 22.17.

(b) Notwithstanding the foregoing provisions of this Section 22.16, so long as a Lease Event of Default or Lease Default shall have occurred and be continuing, any amount that would otherwise be retained by Lessee pursuant to Section 22.16(a), shall be paid to Lessor as security for the obligations of Lessee under this Lease, shall be invested by Lessor in accordance with Section 23.17 in Permitted Investments and, if a Lease Event of Default is continuing, may be applied to the obligations of Lessee hereunder, and, at such time thereafter as no Lease Event of Default or Lease Default shall be continuing, such amount and gain thereon shall be paid promptly to Lessee to the extent not previously applied in accordance with the terms of this Lease.

XXII.17 Security Interest in Funds. As long as a Lease Event of Default or Lease Default shall have occurred and be continuing, any amount that would otherwise be payable to Lessee under the Operative Documents shall be paid to or retained by Lessor (including amounts to be paid to Lessee pursuant to Article XIII or Section 22.16) as security for the performance by Lessee in full of its obligations under this Lease and the other Operative Documents and, if a Lease Event of Default is continuing, it may be applied to the obligations of Lessee hereunder and under the other Operative Documents. At such time as no Lease Event of Default or Lease Default shall be continuing, such amounts, net of any amounts previously applied to Lessee's obligations hereunder or under any other Operative Documents, shall be paid to Lessee. Any such amounts which are held pending payment to Lessee or application hereunder shall be invested by Lessor as directed from time to time in writing by Lessee (provided, however, that if a Lease Event of Default has occurred and is continuing, it will be directed by Lessor), and at the expense and risk of Lessee, in Permitted Investments. Any gain (including interest received) realized as the result of any such investment (net of any fees, commissions and other expenses, if any, incurred in connection with such investment) shall be applied from time to time in the same manner as the principal invested. Lessee will promptly pay to Lessor on demand, the amount of any loss realized as the result of any such investment (together with any fees, commissions and other expenses, if any, incurred in connection with such investment), such amount to be held, paid and applied in the same manner as other amounts subject to this Section 22.17.

XXII.18 Recording of Deed of Trust and Memorandum of Lease. Concurrently with the execution and delivery of this Lease, Lessor and Lessee shall execute, acknowledge and cause to be recorded a Lease Supplement and Deed of Trust for each Site in the official records of the

County where each such Site is located and in such other places as Lessor deems necessary to perfect the Liens granted pursuant to this Lease and the other Operative Documents.

XXII.19 Nature of Transaction. Lessor and Lessee acknowledge and agree that the intent of the parties with respect to the nature of the transaction is as set forth in Section 2.7 of the Participation Agreement.

[Signatures on next page]

IN WITNESS WHEREOF, the undersigned have each caused this Lease to be duly executed and delivered by their respective officers thereunto duly authorized as of the day and year first above written.

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., not in its
individual capacity except as
expressly stated herein, but solely
as Certificate Trustee

By: _____
Name Printed: _____
Title: _____

CISCO TECHNOLOGY, INC., a California
corporation, as Lessee

By: _____
Name Printed: _____
Title: _____

ACKNOWLEDGMENT- CERTIFICATE TRUSTEE

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____, 1998, before me, _____, a Notary Public in and for said State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ **(Seal)**

ACKNOWLEDGMENT-CISCO

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____, 1998, before me, _____, a Notary Public in and for said State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ **(Seal)**

RECEIPT FOR COUNTERPART NO. 1

STATE STREET BANK AND TRUST COMPANY, not in its individual capacity except as expressly stated herein, but solely as Paying and Collateral Agent.

By: _____ Name Printed: _____ Title: _____

EXHIBIT A

Legal Description of the Sites

A-1

EXHIBIT B

Form of Lease Supplement

B-1

TABLE OF CONTENTS

ARTICLE I	DEFINITIONS; INTERPRETATION; FULL RECOURSE.....	-1-
ARTICLE II	LEASE OF SITES; TERM.....	-2-
2.1.	Acceptance and Lease of Sites.....	-2-
2.2.	Acceptance Procedure for Site.....	-2-
2.3.	Term.....	-2-
2.4.	Title.....	-2-
ARTICLE III	OTHER PROPERTY.....	-3-
ARTICLE IV	RENT.....	-3-
4.1.	Basic Rent.....	-3-
4.2.	Supplemental Rent.....	-4-
4.3.	Method and Amount of Payment.....	-4-
4.4.	Late Payment.....	-5-
ARTICLE V	NET LEASE.....	-5-
ARTICLE VI	UTILITY CHARGES.....	-7-
ARTICLE VII	CONDITION OF LEASED PROPERTY.....	-7-
7.1.	Waivers.....	-7-
ARTICLE VIII	NON-INTERFERENCE.....	-8-
8.1.	Non-Interference.....	-8-
8.2.	Certain Duties and Responsibilities of Lessor.....	-8-
ARTICLE IX	MAINTENANCE AND REPAIR; ALTERATIONS AND ADDITIONS.....	-9-
9.1.	Maintenance and Repair; Compliance With Applicable Law.....	-9-
9.2.	Improvements and Alterations to Leased Property.....	-9-
9.3.	Title to Alterations.....	-11-
9.4.	Maintenance and Repair Reports.....	-11-
9.5.	Permitted Contests.....	-12-
9.6.	Warrant of Title.....	-12-
9.7.	Grants and Releases of Easements on the Sites.....	-13-
9.8.	Inspection.....	-14-
9.9.	Reports.....	-14-
ARTICLE X	USE.....	-15-

ARTICLE XI	INSURANCE.....	-15-
11.1.	Required Coverages.....	-15-
11.2.	Self-Insurance Rights.....	-17-
11.3.	Delivery of Insurance Certificates.....	-18-
ARTICLE XII	ASSIGNMENT AND SUBLEASING.....	-18-
12.1.	Assignment by Lessee.....	-18-
12.2.	Subletting.....	-18-
ARTICLE XIII	CASUALTY AND CONDEMNATION; ENVIRONMENTAL MATTERS.....	-19-
13.1.	Casualty and Condemnation.....	-19-
13.2.	Negotiations.....	-21-
13.3.	Environmental Matters.....	-21-
13.4.	Notice of Environmental Matters.....	-22-
ARTICLE XIV	PARTIAL TERMINATIONS.....	-22-
14.1.	Partial Termination upon Certain Events.....	-22-
14.2.	Termination Procedures.....	-23-
ARTICLE XV	OWNERSHIP, GRANT OF LIEN AND FURTHER ASSURANCES.....	-23-
15.1.	Grant of Lien and Security Interest.....	-23-
ARTICLE XVI	LEASE EVENTS OF DEFAULT.....	-24-
ARTICLE XVII	ENFORCEMENT.....	-28-
17.1.	Remedies.....	-28-
17.2.	Proceeds of Sale; Deficiency.....	-33-
17.3.	Deed of Trust Remedies.....	-33-
17.4.	Remedies Cumulative; No Waiver; Consents.....	-33-
ARTICLE XVIII	RIGHT TO PERFORM FOR LESSEE.....	-34-
ARTICLE XIX	EARLY TERMINATION OPTION AND OBLIGATION TO PURCHASE.....	-34-
19.1.	Early Termination Option.....	-34-
19.2.	Partial Site Purchases.....	-35-
19.3.	Required Purchase.....	-36-
ARTICLE XX	END OF TERM OPTIONS.....	-36-
20.1.	End of Term Options.....	-36-

20.2.	Election of Options.....	-37-
20.3	Lease Renewal.....	-37-
ARTICLE XXI	SALE OPTION.....	-38-
21.1.	Sale Option Procedures.....	-38-
21.2.	Sale.....	-39-
21.3.	Application of Sale Proceeds and Recourse Payments.....	-40-
21.4.	Failure to Sell Premises.....	-40-
ARTICLE XXII	MISCELLANEOUS.....	-42-
22.1.	Binding Effect; Successors and Assigns; Survival.....	-42-
22.2.	Severability.....	-42-
22.3.	Notices.....	-42-
22.4.	Amendment; Complete Agreements.....	-42-
22.5.	Headings.....	-43-
22.6.	GOVERNING LAW.....	-43-
22.7.	Discharge of Lessee's Obligations by its Affiliates.....	-43-
22.8.	Liability of Lessor Limited.....	-43-
22.9.	Estoppel Certificates.....	-44-
22.10.	No Joint Venture.....	-45-
22.11.	No Accord and Satisfaction.....	-45-
22.12.	No Merger.....	-45-
22.13.	Successor Lessor.....	-45-
22.14.	Survival.....	-45-
22.15.	Transfer of Leased Property.....	-46-
22.16.	Enforcement of Certain Warranties.....	-46-
22.17.	Security Interest in Funds.....	-47-
22.18.	Recording of Deed of Trust and Memorandum of Lease.....	-48-
22.19.	Nature of Transaction.....	-48-

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE ("Second Amendment") is made and entered into effective as of February 24, 1998, by and between SUMITOMO BANK LEASING AND FINANCE, INC., a Delaware corporation ("Landlord"), and CISCO SYSTEMS, INC., a California corporation ("Tenant").

RECITALS

A. Landlord and Tenant entered into that certain Lease dated May 20, 1993, as amended by that certain First Amendment to Lease dated May 19, 1994 (the "Lease"), pursuant to which Landlord leased to Tenant those certain buildings to be constructed on land located in San Jose, California, as more particularly described in the Lease and on Exhibit "A" attached hereto and incorporated herein by this reference ("Premises"). Any capitalized terms used but not defined in this Second Amendment which are defined in the Lease shall have the meaning ascribed in the Lease.

B. Landlord and Tenant now desire too amend the terms of the Lease, as more particularly described in this Second Amendment.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereby agree as follows:

1. Term. The Term of the Lease is hereby extended for an additional period of five (5) years and shall expire on February 24, 2003.

2. Addresses for Notices.

(a) The address for copies of all Notices to the Landlord set forth in Section 1.9 of the Lease is hereby deleted and replaced with the following:

"Graham & James, LLP
One Maritime Plaza, Suite 300 San Francisco, CA 94111 Attn: Bruce W. Hyman, Esq."

(b) The address for Notices to Tenant set forth in Section 1.9 of the Lease is hereby deleted and replaced with the following:

"Tenant: Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
Attn: Vice President Worldwide Real Estate
and Workplace Resources

with a copy to: Cisco Systems, Inc. 170 West Tasman Drive San Jose, CA 95134-1706 Attn: Treasurer

and a copy to: Brobeck, Phleger & Harrison 550 West C Street, Suite 1200 San Diego, CA 92101 Attn: Ellen E. Jamason"

3. Address for Rent Payments. The address for Rent Payments set forth in Section 1.10 of the Lease is hereby deleted and replaced with the following:

"Sumitomo Bank Leasing and Finance, Inc. 277 Park Avenue
New York, NY 10172
Attn: Chief Credit Officer"

4. Definitions. Article 2 of the Lease is hereby amended as follows:

(a) Security Deposit. The following defined term is hereby added to Article 2 of the Lease:

"2.52(a) Security Deposit. "Security Deposit" shall have the meaning set forth in Section 5.8:

5. Security Deposit. Article 5 of the Lease is hereby amended to add the following Section 5.8:

5.8 Security Deposit.

(a) On or before 12:00 p.m. New York time on February 24, 1998, Tenant shall deliver to SBNYTC a security deposit payment (the "Security Deposit") in an amount equal to the Guaranteed Residual Value, which amount is approximately between eighty-six percent (86%) and eighty-seven percent (87%) of the Advances, not to exceed Fifty-Nine Million, Nine Hundred Sixty-Seven Thousand, Five Hundred Thirty-Eight and 1/100 Dollars (\$59,967,538.01). Landlord shall notify Tenant of the amount of the Security Deposit payment due from Tenant. Tenant hereby grants to Landlord a security interest in the Security Deposit and Landlord may use and commingle the Security Deposit with other funds of Landlord.

(b) From and after the date of the Security Deposit by Tenant, the Security Deposit shall earn interest at the one (1) month LIBOR Rate. Landlord shall pay such interest to Tenant on each Rent Payment Date thereafter by wire transfer to such account as Tenant shall specify from time to time by written notice to Landlord; provided,

however, that (i) Landlord shall not be required to pay such interest amount so long as any Base Rent is due but unpaid, and (ii) if the Base Rent due on any Rent Payment Date is not received by 12:00 p.m. New York time, any such interest payment on the Security Deposit shall not be due from Landlord to Tenant until the next Business Day. Any such interest payment that is not paid by Landlord when due shall bear interest at the federal funds rate for the first three (3) days of delinquency and thereafter at the Lease Rate.

(c) The Security Deposit shall be held by Landlord as security for the payment of Base Rent and Additional Rent by Tenant pursuant to this Lease. If at any time during the Term any Base Rent or Additional Rent shall be overdue, then Landlord may at its election (but shall not be required to) appropriate and apply any portion of the Security Deposit to the payment of any such overdue Base Rent or Additional Rent. Should the entire Security Deposit, or any portion thereof, be appropriated and applied by Landlord as provided herein, then Tenant shall immediately, after receipt of written demand by Landlord, pay to Landlord a sufficient sum in cash to restore the Security Deposit to the amount required hereunder.

(d) In addition, the Security Deposit shall also be held by Landlord as security for the payment of any amount due Landlord under Section 17.4(b) or Section 19.1(a) or for the payment of the Purchase Price in the event Tenant exercises the Purchase Option pursuant to Section 19.1. At the end of the Term, any portion of the Security Deposit then held by Landlord and not applied as provided in Section 5.8(c) above or in the preceding sentence shall be returned to Tenant; provided, however, that Landlord and Tenant shall apply and set off the Security Deposit or any portion thereof against any amounts owed by Tenant to Landlord at the end of the Term (whether pursuant to Section 19.1, Section 19.2 or otherwise). Any and all portions of the Security Deposit not applied to amounts owed by Tenant to Landlord shall be returned to Tenant within ten (10) days after the end of the Term."

6. Liability Insurance. Section 7.1 of the Lease is hereby amended by deleting the last three lines on page 20 and substituting the following:

"than the following: (1) Two Million Dollars (\$2,000,000.00) per person; and (2) One Million Dollars (\$1,000,000.00) for property damage."

7. All-Risk Insurance. Section 7.3 is hereby amended by deleting clauses (b) and (c), and replacing them with the following:

"(b) a policy or policies of difference in conditions insurance covering the Improvements, providing coverage against loss or damage by earthquake and flood as, under good insurance practice, from time to time are insured against under earthquake coverage for properties of similar character, age and location in an amount or amounts not less than the lesser of (i) one hundred percent (100%) of the then actual replacement cost (exclusive of land, foundation, excavations, grading, landscaping, architectural and development fees and other items customarily excluded from such coverage and without an deduction for depreciation) or (ii) the amount of the Equity Funded Amount."

8. Self Insurance. Article 7 is further amended by adding the following Section 7.7:

"The Tenant shall have the right to self-insure with respect to any of the insurance required under this Lease so long as (i) the Tenant is a publicly traded domestic corporation whose stock is traded on a nationally recognized exchange; (ii) the Tenant has not assigned this Lease; (iii) the Tenant maintains a Consolidated Tangible Net Worth of at least \$1,000,000,000 according to its most recent audited financial statement; (iv) the Tenant has a senior unsecured credit rating of BBB or better from a nationally recognized rating agency; and (v) the Tenant governs and manages its self-insurance program in a manner consistent with programs managed by prudent businesses whose stock is publicly traded on nationally recognized exchanges. Upon request the Tenant shall supply the Landlord from time to time with evidence reasonably satisfactory to the Landlord of the Tenant's net worth and the satisfaction of the condition set forth above. If the Tenant elects to self-insure, the Tenant shall be responsible for losses or liabilities which would have been assumed by the insurance companies which would have issued the insurance required of the Tenant under the Lease. The Tenant will notify the Landlord in advance of any period for which it intends to self-insure and shall provide Landlord with satisfactory evidence that it complies with these requirements in order to give the Tenant an opportunity to confirm the satisfaction of the conditions set forth above. For so long as the Tenant self-insures, the tenant, for applicable periods, shall and does hereby indemnify and hold harmless the Landlord, its officers, directors, agents, employees and representatives from and against all costs, damages or expenses (including reasonable attorneys' fees) incurred or paid by the Tenant as a result of any claim customarily covered by a broad-form policy of commercial general liability insurance, including a contractual liability endorsement."

9. Landlord's Right to Sell. Section 13.2 of the Lease is hereby amended by adding the following sentence:

"In the event of any sale or other transfer by Landlord of its interest in this Lease, Landlord, concurrently with the effective date of the transfer, shall deliver the Security Deposit to the transferee, and shall give notice thereof to Tenant."

10. Events of Major Default. Section 17.2(d) shall be amended to provide that Tenant shall not be in default so long as it is fully complying with the self-insurance provision of Section 7.7 above.

11. Failure to Replenish Under Pledge Agreement. Section 17.2(f) of the Lease is hereby deleted in its entirety and replaced with the following:

"(f) Failure to Replenish Under Pledge Agreement. Tenant's failure to replenish the collateral in 'Collateral Accounts A and B' as defined in and under the Pledge Agreement (as defined in Section 13.1
(b)) after notice and cure periods provided in the Pledge Agreement or to deliver the Security Deposit."

12. Default Under other Facility. Section 17.2(g) is hereby modified to read as follows:

"A payment default (after applicable notice and cure periods) under any credit facility of Tenant which equals or exceed Twenty Million Dollars (\$20,000,000.00)."

13. Interest Coverage Ratio and Minimum Tangible Net Worth. Section 17.2(h) of the Lease is hereby deleted and replaced with the following:

"(h) Interest Coverage Ratio and Minimum Tangible Net Worth. The Earnings Before Interest and Taxes divided by Interest Expense (as such terms are defined in accordance with generally accepted accounting principles promulgated by the American Institute of Certified Public Accountants consistently applied and as in effect from time to time) falls below 6.00 times, then Tenant shall be required to maintain a Minimum Consolidated Tangible Net Worth, defined as the sum of (i) \$2,800,000,000.00, and (ii) 25% of net income (without subtracting for losses) earned in each of Tenant's fiscal quarters during the Term, commencing with Tenant's fourth fiscal quarter for 1997."

14. Landlord's & Default. The following Section 17.9 shall be added:

"In addition to Tenant's Rights set forth in Section 17.8 above, in the event of a default by Landlord under Section 20.5, Tenant shall have the right to cure such default on behalf of and at Landlord's expense, without prior notice to Landlord. In addition, in the event of any default by Landlord under Section 20.3, 20.4 or 20.5, Tenant shall have the right to exercise its Purchase Option pursuant to Section 19.1 hereof."

15. Mandatory Purchase/Sale of Premises. The second to the last sentence of Section 19.2 of the Lease is hereby deleted and replaced with the following:

"In the event of default, breach or violation by Tenant of any of Tenant's obligations under this Section 19.2, Tenant shall have no liability to Landlord or any other party in excess of an amount equal to the then-existing Guaranteed Residual Value less a credit equal to any of the Collateral or the Security Deposit, as the case may be, which Sumitomo or any other Fee Mortgagee has used, applied, or otherwise come into possession of, and Landlord shall have no recourse, claim or counterclaim whatsoever against Tenant in excess of such amount on account of such default, breach or violation."

16. Additional Covenants of Landlord. The following Sections 20.4 and 20.5 shall be deleted and the following substitution in place thereof:

" 20.4 Landlord Equity. Landlord covenants and agrees that during the Term of the Lease, Landlord shall maintain a residual equity capital investment so that Landlord will not be deemed to be a Special Purpose Entity.

20.5 Default Under Authorized Loan. Landlord shall not, without Tenant's express prior written consent, default under any Authorized Loan, or any loan documents relating to such Authorized Loan, where such default does not arise from an Event of Major Default by Tenant under this Lease."

17. Collateral. The following sentence is hereby added to Section 21.18 of the Lease:

"Upon delivery of the Security Deposit by Tenant, the Collateral shall be released from the lien created by the Pledge Agreement to Tenant."

18. Financial Reporting. The language beginning with the word "quarterly" in the fifth line of Section 21.24 of the Lease and ending with the word "Term" is hereby deleted and replaced with the following:

"quarterly, within fifty (50) days after the end of each of Tenant's first three (3) fiscal quarters of the fiscal year during the Term"

19. Annual Negotiations. Article 21 of the Lease is hereby amended to add the following Section 21.26:

"21.26 Annual Negotiations. The parties acknowledge that Tenant's agreement to this Second Amendment on the terms and conditions contained herein is made in recognition of the current financial crises in the Japanese banking industry. Because market conditions involving the Japanese banking industry may improve with time, the parties hereby agree that, commencing on December 24, 1998 and each anniversary thereof, the parties shall review the economic terms of the Lease as hereby modified, to determine in good faith: (a) if the market conditions involving the Japanese banking industry have materially improved since the date of this Second Amendment, and if so, (b) the fair market Lease Rate, Lessor Contribution Rate and other economic terms of the Lease which should be made available to Tenant under such improved market conditions. Tenant's acceptance of this Second Amendment is further conditioned on Landlord's agreement to thereafter amend the Lease without any restructuring fee or Tenant obligation to pay for any of Landlord's transaction costs or legal fees to reflect the fair market Lease Rate, Lessor Contribution Rate and other economic terms of the Lease under the improved market conditions for the Japanese banking industry."

20. Tenant Deed of Trust. Concurrently with the effective date of this Second Amendment, Landlord shall execute, acknowledge and cause to be recorded in the official record a deed of trust in form acceptable to Tenant ("Tenant Deed of Trust"), which Tenant Deed of Trust shall secure Landlord's obligations under this Lease (i) to return the Security Deposit pursuant to the terms of this Lease and (ii) to convey the Premises to Tenant as required pursuant to Article 19 hereof. The Tenant Deed of Trust shall be junior only to the Sumitomo Deed of Trust, and the SBLF Deed of Trust.

21. Counterparts. This Second Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall comprise but a single instrument.

22. Existing Lease. Except to the extent specifically amended hereby, all terms and conditions of the Lease remain in full force and effect.

[Signatures begin on next page.]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Second Amendment effective as of the date and year first written above.

"TENANT"

CISCO SYSTEMS, INC.,
a California corporation

By:

Name:

Its:

By:

Name:

Its:

[Signatures continued on next page.]

"LANDLORD"

SUMITOMO BANK LEASING AND FINANCE, INC.,
a Delaware corporation

By:

Name:

Its:

By:

Name:

Its:

Exhibit A

Real Property in the City of San Jose, County of Santa Clara, State of California, described as follows:

Parcels 1 through 8 inclusive, as shown on that certain Parcel Map, which Map was filed for record in the office of the Recorder of the County of Santa Clara, State of California, on February 24, 1993 in Book 644 of Maps, pages 40, 41, 42 and 43.

APN: 97-54-006, 007, 008, 009, 010, 011, 012, 013, 014 ARB: High Tract Lots 79, 80, 81, 82, 83, 84, 85, 86 at 535/32

EXHIBIT: 10.55

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE ("Third Amendment") is made and entered into as of February 24, 1998, by and between SGA Development Partnership, Ltd., a Texas limited partnership ("Landlord") and Cisco Systems, Inc., a California corporation ("Tenant"),

This Third Amendment is entered into upon the basis of the following facts, understandings and intentions.

A. Landlord and Tenant have entered into that certain Lease dated February 25, 1993 (the "Lease") as amended by that certain First Amendment to Lease dated May 20, 1993 (the "First Amendment") and that certain Second Amendment to Lease (the "Second Amendment") dated May 19, 1994 (hereinafter collectively referred to as the "Lease"), pursuant to which Landlord leased to Tenant certain land located in San Jose, California as more particularly described in the Lease and on Exhibit A attached hereto and incorporated herein by this reference ("Premises"). Any capitalized terms used but not defined in this Third Amendment which are defined in the Lease shall have the meanings described in the Lease.

B. Landlord and Tenant now desire to amend the terms of the Lease as more particularly described in herein.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. Term. Section 1.6 of the Lease shall be amended to provide that (a) the Term is extended until February 24, 2003, and (b) Tenant shall have no rights to extend the Term of the Lease beyond February 24, 2003. For all purposes of the Lease, the period from the date of this Third Amendment until February 24, 2003, shall be the "Extension Term."

2. Addresses for Notices. Section 1.9 is hereby amended by changing the addresses for notice to Tenant to the following:

Tenant: Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
Attn: Vice President Worldwide Real
Estate and Workplace Resources

copy to: Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
Attn: Treasurer

copy to: Brobeck, Phleger & Harrison
550 West C Street, Suite 1200
San Diego, CA 92101
Attn: Ellen E. Jamason, Esq.

and to change the address for copies of notices to Landlord to

the following:

Lorne O. Liechty, Esq.

Liechty & McGinnis, P.C.
10440 North Central Expressway, Suite 1100
Dallas, Texas 75231

3. Second Amendment to Promissory Note. Tenant hereby consents to the Second Amendment to Promissory Note to be executed by Landlord and HKS effective concurrently herewith. As used in the Lease, the term "HKS Note" shall mean the HKS Note as the same has been previously amended and as amended by the Second Amendment to Promissory Note.

4. Liability Insurance. Section 7.1 of the Lease is hereby amended by deleting Section 7.1 and substituting the following therefore:

7.1 Public Liability Insurance. During the Term, the Tenant shall procure and carry, at the Tenant's sole cost and expense, commercial general liability insurance for claims for injuries or death sustained by persons or damage to property while on the Properties and such other public liability coverages as are ordinarily procured by the Tenant or its Affiliates who own or operate similar properties, but in any case shall provide liability coverage of at least \$2,000,000 per person and \$1,000,000 for property damage per occurrence. Such insurance shall be on terms and in amounts that are no less favorable than insurance maintained by the Tenant or such Affiliates with respect to similar properties that they own and that are in accordance with normal industry practice. The policy shall be endorsed to include the Landlord as an additional insured. The policy shall also specifically provide that the policy shall be considered primary insurance which shall apply to any loss or claim before any contribution by any insurance which the Landlord may have in force.

5. Self-Insurance. Article 7 is further amended by adding the following new Section 7.4:

"The Tenant shall have the right to self-insure with respect to any of the insurance required under this Lease so long as (i) the Tenant is a publicly traded domestic corporation whose stock is traded on a nationally recognized exchange; (ii) the Tenant has not assigned

this Lease; (iii) the Tenant maintains a Consolidated Tangible Net Worth of at least \$1,000,000,000 according to its most recent audited financial statement; and (iv) the Tenant governs and manages its self-insurance program in a manner consistent with programs managed by prudent businesses whose stock is publicly traded on nationally recognized exchanges. Upon request, the Tenant shall supply the Landlord from time to time with evidence reasonably satisfactory to the Landlord of the Tenant's net worth and the satisfaction of the condition set forth above. If the Tenant elects to self-insure, the Tenant shall be responsible for losses or liabilities which would have been assumed by the insurance companies which would have issued the insurance required of the Tenant under the Lease. The Tenant will notify the Landlord in advance of any period for which it intends to self-insure and shall provide Landlord with satisfactory evidence that it complies with these requirements in order to give the Tenant an opportunity to confirm the satisfaction of the conditions set forth above. For so long as the Tenant self-insures, the Tenant, for applicable periods, shall and does hereby indemnify and hold harmless the Landlord, its officers, directors, agents, employees and representatives from and against all costs, damages or expenses (including reasonable attorneys' fees) incurred or paid by the Tenant as a result of any claim customarily covered by a broad-form policy of commercial general liability insurance, including a contractual liability endorsement.

6. Tenant Deed of Trust. Concurrently with the effective date of this Third Amendment, Landlord shall execute, acknowledge and cause to be recorded in the Official Records of Santa Clara County, California a Deed of Trust in form acceptable to Tenant ("Tenant Deed of Trust"), which Tenant Deed of Trust shall secure Landlord's obligations under this Lease to convey the Premises to Tenant as required pursuant to Article 19 of the Lease. The Tenant Deed of Trust shall be junior only to the Sumitomo/HKS Deed of Trust and subject to the Permitted Exceptions.

7. Landlord's Default. Section 17.8 shall be amended by adding the following sentence:

"In addition, in the event of a default by Landlord under Section 20.7, Tenant shall have the right to cure such default on behalf of and at Tenant's expense (unless such default is due to Landlord's gross negligence or willful misconduct, in which case such cure shall be at Landlord's expense), without prior notice to Landlord.

8. Additional Covenants of Landlord. The following Section 20.7 shall be added as follows:

"20.7 Default Under Authorized Loan. Landlord shall not,

without Tenant's express prior written consent, default under any Authorized Loan, or any loan document relating to such Authorized Loan, where such default is not caused, directly or indirectly by a breach of any of Tenant's obligations under this Lease, under the Pledge Agreement securing the HKS Note or under any other documents relating to any Authorized Loan.

9. Continuing Obligations. Except as modified by this Third Amendment, the terms of the Lease remain in full force and effect. To the extent of any conflict between the terms of the Lease and the terms of this Third Amendment, the terms of this Third Amendment shall control.

10. Authority. Each party represents to the other that the execution, delivery and performance of this Third Amendment has been duly authorized by all necessary corporate or partnership action and has been duly executed and delivered. Each individual executing this Third Amendment on behalf of a party represents that he or she has been duly authorized to so execute this Third Amendment for such party.

11. Counterparts. This Third Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall comprise but a single instrument.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Third Amendment as of the date and year first above written.

"LANDLORD"

SGA DEVELOPMENT PARTNERSHIP, LTD.,
a Texas limited partnership

By: Papita, Inc.,
a Texas limited partnership
Its: General Partner

By:

By: Wolverine Holding Company, a Texas corporation Its: General Partner

By:

By:

"TENANT"

CISCO SYSTEMS, INC., a California corporation

By:

By:

EXHIBIT 13.01

SELECTED FINANCIAL DATA

Five Years Ended July 25, 1998 (in thousands, except per-share amounts)

	1998	1997	1996	1995	1994
Net sales	\$8,458,777	\$6,440,171	\$4,096,007	\$2,232,652	\$1,334,436
Net income	\$1,350,072(1)	\$1,048,679(2)	\$ 913,324	\$ 456,489(3)	\$ 322,981
Net income per common share--basic(*)	\$ 0.88	\$ 0.71	\$ 0.64	\$ 0.33	\$ 0.25
Net income per common share--diluted(*)	\$ 0.84(1)	\$ 0.68(2)	\$ 0.61	\$ 0.32(3)	\$ 0.24
Shares used in per-share calculation--basic(*)	1,533,869	1,485,986	1,437,030	1,367,453	1,296,023
Shares used in per-share calculation--diluted(*)	1,608,173	1,551,039	1,490,078	1,425,247	1,342,213
Total assets	\$8,916,705	\$5,451,984	\$3,630,232	\$1,991,949	\$1,129,034

(*) Reflects the three-for-two stock split effective September 1998.

(1) Net income and net income per share include purchased research and development expenses of \$594 million and realized gains on the sale of a minority stock investment of \$5 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$1,878,988 and \$1.17, respectively.

(2) Net income and net income per share include purchased research and development expenses of \$508 million and realized gains on the sale of a minority stock investment of \$153 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$1,413,893 and \$0.91, respectively.

(3) Net income and net income per share include purchased research and development expenses of \$96 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$515,723 and \$0.36, respectively.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report including, without limitation, statements containing the words "believes," "anticipates," "estimates," "expects," and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are referred to the "Financial Risk Management" and "Potential Volatility in Operating Results" sections contained herein, as well as the "Future Growth Subject to Risks" and "Other Risk Factors" sections, among others, included in the Form 10-K for the fiscal year ended July 25, 1998, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements.

COMPARISON OF 1998 AND 1997

Net sales grew to \$8.5 billion in 1998 from \$6.4 billion in 1997. The 31.3% increase in net sales during the year was primarily a result of increasing unit sales of high-end switches such as the Catalyst(R) 5500, access servers such as the Cisco 3600 family, Internet and intranet access products for small offices such as the Cisco 1600 series router, and increased service contract sales. The sales growth rate for lower-priced access and switching products targeted toward small and medium-sized businesses has increased faster than that of the Company's high-end core router products. However, these products typically carry lower average selling prices, and thus have slowed the Company's growth rate compared with last year. Additionally, some of the Company's more established product lines, such as the Cisco 2500 product family and the Catalyst 1400, experienced decelerating growth rates. Sales to international customers decreased to 40.9% of net sales in 1998 from 43.5% in 1997. The decrease reflects slower sales growth in certain Asian countries, particularly Japan and Korea. The Company anticipates that sales in Asia will remain weak for the near future, with the exception of the Greater China markets. Sales growth in these markets has been impacted by certain factors including weaker economic conditions, delayed government spending, a stronger dollar versus the local currencies, and slower adoption of networking technologies.

Gross margins increased slightly to 65.5% during 1998 from 65.2% in 1997. This increase is due principally to the Company's improvements in value-engineering efforts and material cost reductions, partially offset by a continued shift in product mix to the Company's lower-margin products. The prices of component parts have fluctuated in the recent past, and the Company expects that this trend may continue. An increase in the price of component parts may have a material adverse impact on gross margins. The Company continues to expect that gross margins will decrease in the future, because it believes that the market for lower-margin remote access and switching products for small to medium-sized businesses will continue to increase at a faster rate than the market for the Company's higher-margin router and high-performance switching products. Additionally, as the Company focuses on new market opportunities, it faces increasing competitive pressure from large telecommunications equipment suppliers and well-funded startup companies, which may materially adversely affect gross margins. The Company is attempting to mitigate this trend through various means, such as increasing the functionality of its products, continued value engineering, controlling royalty costs, and improving manufacturing efficiencies. There can be no assurance that any efforts made by the Company in these and other areas will successfully offset decreasing margins.

Research and development expenses increased by \$322 million in 1998 compared with 1997 expenditures, an increase to 12.1% of net sales from 10.8% in 1997. The increase reflects the Company's ongoing research and development efforts in a wide variety of areas such as voice, video, and data integration, Digital Subscriber Line (DSL) technologies, dial access, enterprise switch routers, security, network management, and high-end routing technologies, among others. A significant portion

of the increase was due to the addition of new personnel, partly through acquisitions, as well as higher expenditures on prototypes and depreciation on additional lab equipment. For the near future, research and development expenses are expected to increase at a greater rate than the sales growth rate as the Company invests in technology to address potential market opportunities. The Company also continues to purchase technology in order to bring a broad range of products to the market in a timely fashion. If the Company believes that it is unable to enter a particular market in a timely manner, it may license technology from other businesses or acquire other businesses as an alternative to internal research and development. All of the Company's research and development costs are expensed as incurred.

Sales and marketing expenses increased by \$404 million in fiscal 1998 over fiscal 1997, an increase to 18.5% of net sales in 1998 from 18.0% in fiscal 1997. The increase is due principally to an increase in the size of the Company's direct sales force and related commissions, additional marketing and advertising costs associated with the introduction of new products, and the expansion of distribution channels. The increase also reflects the Company's efforts to invest in certain key areas such as expansion of its end-to-end strategy and service provider coverage in order to position itself to take advantage of future market opportunities.

General and administrative expenses rose by \$54 million in fiscal 1998 over fiscal 1997, a decrease to 3.1% from 3.2% of net sales. The dollar increase reflects increased personnel costs necessary to support the Company's business infrastructure, including those associated with its European Logistics Center, the further development of its information systems, as well as increased levels of amortization for acquisition-related intangible assets. It is management's intent to keep general and administrative costs relatively constant as a percentage of net sales; however, this goal depends upon the level of acquisition activity and amortization of the resulting intangible assets, among other factors.

The amount expensed to purchased research and development in fiscal 1998 arose from the purchase acquisitions of DAGAZ Technologies, LightSpeed International, Inc., WheelGroup Corporation, NetSpeed Inc., and CLASS Data Systems (see Note 3).

Interest and other income, net, was \$193 million in 1998 and \$109 million in 1997. Interest income rose as a result of additional investment income on the Company's increasing investment balances. In fiscal 1997, the Company began selling its holdings in a publicly traded company at amounts significantly above the cost basis of the investment. Also in 1997, the Company established the Cisco Systems Foundation ("the Foundation"). As part of this initiative, the Company donated a portion of this investment, along with other equity securities, to the Foundation, with a combined cost basis of approximately \$2 million and an approximate market value of \$72 million at July 26, 1997. The realized gains on the sale of this investment, net of the amounts donated to the Foundation, were \$153 million in fiscal 1997 (see Note 5).

COMPARISON OF 1997 AND 1996

Net sales grew to \$6.4 billion in 1997 from \$4.1 billion in 1996. The 57.2% increase in net sales during the year was primarily the result of increasing unit sales of LAN switching products such as the Catalyst 5000, high-end routers such as the Cisco 7500 product family, modular access routers such as the Cisco 4700, and growth in the sales of add-on boards that provide increased functionality. These increases were partially offset by decreasing unit sales of the Company's older product lines, consisting of the Cisco 7000 and Cisco 4000. The sales growth rate for lower-priced access and switching products targeted toward small and medium-sized businesses increased faster than that of the Company's high-end core router products. These products typically carry lower average selling prices, thereby contributing to the slowdown in the Company's overall growth rate in 1997 versus 1996. Additionally, some of the Company's

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

more established product lines, such as the Cisco 2500 series, experienced decelerating growth rates. Sales to international customers decreased to 43.5% of net sales in 1997 from 48.2% for 1996. The decrease was attributed to slower sales growth in certain international markets, particularly Japan, France, and Germany. Sales growth in these markets was impacted by certain factors including weaker economic conditions, delayed government spending, a stronger dollar versus the local currencies, and slower adoption of networking technologies.

Gross margins decreased slightly to 65.2% during 1997 from 65.6% in 1996. This decrease was due to several factors, including the continued shift in revenue mix to the Company's lower-margin products consisting primarily of access and workgroup products for small to medium-sized businesses. These products traditionally have fewer features and less software functionality than the Company's service provider and enterprise offerings.

Research and development expenses increased by \$299 million in 1997 compared with 1996 expenditures, an increase to 10.8% of net sales from 9.7% in 1996. The increase reflected the Company's ongoing research and development efforts in a wide variety of areas such as voice, video, and data integration, Digital Subscriber Line (DSL) technologies, dial access, enterprise switching, security, network management, and high-end routing technologies, among others. A significant portion of the increase was due to the addition of new personnel, as well as higher expenditures on prototypes and depreciation on new equipment.

Sales and marketing expenses increased by \$434 million in fiscal 1997 over fiscal 1996, an increase to 18.0% of net sales in 1997 from 17.7% in fiscal 1996. The increase in these expenses resulted from an increase in the size of the Company's direct sales force and related commissions, additional marketing programs to support the launch of new products, the entry into new markets, and expanding distribution channels.

General and administrative expenses rose by \$45 million in fiscal 1997 over fiscal 1996, a decrease to 3.2% from 3.9% of net sales. The dollar increase reflected increased personnel costs necessary to support the Company's business infrastructure, including those associated with its new European Logistics Center, as well as the further development of its information systems. The percentage decrease reflects management's continued efforts to control discretionary spending.

The amount expensed to purchased research and development in fiscal 1997 arose from the purchase acquisitions of Telebit Corporation, Netsys Technologies, Skystone Systems Corporation, Ardent Communications, and Global Internet Software Group (see Note 3).

Interest and other income, net, was \$109 million in 1997 and \$64 million in 1996. Interest income rose as a result of additional investment income on the Company's increasing investment balances.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenue, expenses, gains, and losses) in a full set of general-purpose financial statements. The Company will adopt SFAS No. 130 as required for its first quarterly filing of fiscal year 1999.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which changes the way public companies report information about operating segments. SFAS No. 131, which is based on the management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenue. Management is in the process of evaluating the effects of this change on its reporting of segment information.

The Company will adopt SFAS No. 131 as required for its annual report on fiscal year 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management has not yet evaluated the effects of this change on its operations. The Company will adopt SFAS No. 133 as required for its first quarterly filing of fiscal year 2000.

Financial Risk Management

The following discussion about the Company's risk management activities includes "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

As a global concern, the Company faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results. Historically, the Company's primary exposures have related to nondollar-denominated sales in Japan, Canada, and Australia and nondollar-denominated operating expenses in Europe, Latin America, and Asia where the Company sells primarily in U.S. dollars. The introduction of the Euro as a common currency for members of the European Monetary Union is scheduled to take place in the Company's fiscal year 1999. The Company has not determined what impact, if any, the Euro will have on foreign exchange exposure. The Company is prepared to hedge against fluctuations in the Euro if this exposure becomes material. At the present time, the Company hedges only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and does not generally hedge anticipated foreign currency cash flows. The hedging activity undertaken by the Company is intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. The success of this activity depends upon estimation of intercompany balances denominated in various currencies, primarily the Japanese yen, Canadian dollar, Australian dollar, and certain European currencies. To the extent that these forecasts are over- or understated during periods of currency volatility, the Company could experience unanticipated currency gains or losses.

The Company is experiencing a greater proportion of its sales activity through its partners in two-tier distribution channels. These customers are generally given privileges to return inventory, receive credits for changes in the Company's selling prices, and participate in cooperative marketing programs. The Company maintains appropriate reserves and allowances for such exposures. However, such partners tend to have access to more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk. Additionally, the Company is experiencing increased demands for customer financing and leasing solutions. The Company also continues to monitor increased credit exposures because of the weakened financial conditions in Asia and the impact that such conditions may have on the worldwide economy. Although the Company has not experienced significant losses because of customers failing to meet their obligations to date, such losses, if incurred, could have a material adverse impact on the Company's business, operating results, and financial position.

The Company maintains investment portfolio holdings of various issuers, types, and maturities. These securities are generally classified as available for sale, and consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of shareholders' equity, net of tax. Part of this portfolio includes minority equity investments in several publicly traded companies, the values of which are subject

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

to market price volatility. The Company also has certain real estate lease commitments with payments tied to short-term interest rates. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of the Company's investment portfolio while increasing the costs associated with its lease commitments. Conversely, declines in interest rates could have a material impact on interest earnings for the Company's investment portfolio. The Company does not currently hedge these interest rate exposures.

The following table presents the hypothetical changes in fair values in the financial instruments held by the Company at July 25, 1998 that are sensitive to changes in interest rates. These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points (BPS), 100 BPS, and 150 BPS over a twelve-month time horizon. Beginning fair values represent the market principal plus accrued interest, dividends, and certain interest rate-sensitive securities considered cash and equivalents for financial reporting purposes at July 25, 1998. Ending fair values comprise the market principal plus accrued interest, dividends, and reinvestment income at a twelve-month time horizon. This table estimates the fair value of the portfolio at a twelve-month time horizon (in millions):

ISSUER	VALUATION OF SECURITIES GIVEN AN INTEREST RATE DECREASE OF X BASIS POINTS			NO CHANGE IN INTEREST RATES	VALUATION OF SECURITIES GIVEN AN INTEREST RATE INCREASE OF X BASIS POINTS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
U.S. government notes and bonds	\$1,052	\$1,050	\$1,047	\$1,045	\$1,043	\$1,040	\$1,038
State, municipal, and county government notes and bonds	3,530	3,488	3,448	3,409	3,369	3,330	3,292
Foreign government notes and bonds	33	33	33	33	33	33	33
Corporate notes and bonds	810	809	808	807	806	805	804
Total	\$5,425	\$5,380	\$5,336	\$5,294	\$5,251	\$5,208	\$5,167

A 50-BPS move in the Federal Funds Rate has occurred in 9 of the last 10 years; a 100-BPS move in the Federal Funds Rate has occurred in 6 of the last 10 years; and a 150-BPS move in the Federal Funds Rate has occurred in 4 of the last 10 years.

The following analysis presents the hypothetical change in fair values of public equity investments held by the Company that are sensitive to changes in the stock market. These equity securities are held for purposes other than trading. The modeling technique used measures the hypothetical change in fair values arising from selected hypothetical changes in each stock's price. Stock price fluctuations of plus or minus 15%, plus or minus 35%, and plus or minus 50% were selected based on the probability of their occurrence.

This table estimates the fair value of the publicly traded corporate equities at a twelve-month time horizon (in millions):

	VALUATION OF SECURITY GIVEN X% DECREASE IN EACH STOCK'S PRICE			FAIR VALUE AS OF JULY 25, 1998	VALUATION OF SECURITY GIVEN X% INCREASE IN EACH STOCK'S PRICE		
	(50%)	(35%)	(15%)		15%	35%	50%
Corporate equities	\$ 86	\$111	\$146	\$171	\$197	\$231	\$257

Within the Company's public equity investment portfolio, a 15% movement in the stock price has occurred in 82% of the annual periods since the shares were initially offered or in the last three years; a 35% movement in the stock price has occurred in 36% of the annual periods since the shares were initially offered or in the last three years; and a 50% movement in the stock price has occurred in 36% of the annual periods since the shares were initially offered or in the last three years.

The Company also is exposed to interest rate risk associated with leases on its facilities whose payments are tied to the London Interbank Offered Rate (LIBOR), and has evaluated the hypothetical change in lease obligations held at July 25, 1998 due to changes in the LIBOR rate. The modeling technique used for analysis measured hypothetical changes in lease obligations arising from selected hypothetical changes in the LIBOR rate. Market changes reflected immediate hypothetical parallel shifts in the LIBOR curve of plus or minus 50 BPS, 100 BPS, and 150 BPS over a twelve-month period. The results of this analysis were not material to the Company's financial results.

The Company enters into forward foreign exchange contracts to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities, primarily denominated in Japanese, Canadian, Australian, and certain European currencies.

The Company generally enters into forward currency contracts that have original maturities of one to three months, with none having a maturity greater than one year in length. The total notional values of forward contracts purchased and forward contracts sold were \$166 million and \$153 million, respectively. The net unrealized gain on forward exchange contracts was \$0.1 million. Management does not expect gains or losses on these contracts to have a material impact on the Company's financial results (see Note 7).

POTENTIAL VOLATILITY IN OPERATING RESULTS

The Company expects that in the future, its net sales may grow at a slower rate than was experienced in previous periods, and that on a quarter-to-quarter basis, the Company's growth in net sales may be significantly lower than its historical quarterly growth rate. As a consequence, operating results for any particular quarter are extremely difficult to predict. The Company's ability to meet financial expectations could be hampered if the nonlinear sales pattern seen in recent quarters continues in future periods. The Company generally has had one quarter of the fiscal year when backlog has been reduced. Although such reductions have not occurred consistently in recent years, they are difficult to predict and may occur in the future. In addition, in response to customer demand, the Company continues to attempt to reduce its product manufacturing lead times, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in the Company's quarter-to-quarter net sales and operating results going forward. On the other hand, for certain products, lead times are longer than the Company's goal. If the Company cannot reduce manufacturing lead times for such products, the Company's customers may cancel orders or not place further orders if shorter lead times are available from other manufacturers, thus creating additional variability.

As a result of recent unfavorable economic conditions, sales to certain countries in Asia and the Pacific Rim have declined as a percentage of the Company's total revenue. If the economic conditions in these markets worsen, or if these unfavorable conditions result in a wider regional or global economic slowdown, this decline may have a material adverse impact on the Company's business, operations, and financial condition.

Many computer systems were not designed to handle any dates beyond the year 1999, and therefore, computer hardware and software will need to be modified prior to the year 2000 in order to remain

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

functional. The Company is concerned that many enterprises will be devoting a substantial portion of their information systems spending to resolving this upcoming Year 2000 problem. This expense may result in spending being diverted from networking solutions in the near future. The Company is still assessing the impact of the Year 2000 issue on its products and internal information systems and has begun, and in many cases completed, corrective efforts in these areas. The Company does not anticipate that addressing the Year 2000 problem for its internal information systems and current and future products will have a material impact on its operations or financial results. However, there can be no assurance that these costs will not be greater than anticipated, or that corrective actions undertaken will be completed before any Year 2000 problems could occur. The Year 2000 issue could lower demand for the Company's products while increasing the Company's costs. These combining factors, while not quantified, could have a material adverse impact on the Company's financial results.

The Company has certain key relationships with suppliers. If these suppliers fail to adequately address the Year 2000 issue for the products they provide to the Company, this could have a material adverse impact on the Company's operations and financial results. The Company is still assessing the effect the Year 2000 issue will have on its suppliers and at this time, cannot determine the impact it will have.

Contingency plans will be developed if it appears the Company or its key suppliers will not be Year 2000 compliant, and such noncompliance is expected to have a material adverse impact on the Company's operations.

The Company also expects that gross margins may be adversely affected by increases in material or labor costs, heightened price competition, and changes in channels of distribution or in the mix of products sold. For example, the Company believes that gross margins may decline over time, because the markets for lower-margin access products targeted toward small to medium-sized customers have continued to grow at a faster rate than the markets for the Company's higher-margin router and high-performance switching products targeted toward enterprise and service provider customers. The Company recently introduced new products, and several additional new products are scheduled to be released in the near future. If warranty costs associated with these new products are greater than the Company has experienced historically, gross margins may be adversely affected. The Company's gross margins may also be impacted by geographic mix, as well as the mix of configurations within each product group. The Company continues to expand into third-party or indirect distribution channels, which generally results in lower gross margins. In addition, increasing third-party and indirect distribution channels generally results in greater difficulty in forecasting the mix of the Company's products, and to a certain degree, the timing of its orders.

The Company also expects that its operating margins may decrease as it continues to hire additional personnel and increases other operating expenses to support its business. The Company plans its operating expense levels based primarily on forecasted revenue levels. Because these expenses are relatively fixed in the short term, a shortfall in revenue could lead to operating results being below expectations. The results of operations for 1998 are not necessarily indicative of results to be expected in future periods, and the Company's operating results may be subject to quarterly fluctuations as a result of several factors. These factors include the integration of people, operations, and products from acquired businesses and technologies; increased competition in the networking industry; the overall trend toward industry consolidation; the introduction and market acceptance of new technologies and standards, including switch routers, Gigabit Ethernet switching, Tag Switching (currently also known as multiprotocol label switching [MPLS]), and voice, video, and data capabilities; variations in sales channels, product costs,

or mix of products sold; the timing of orders and manufacturing lead times; and changes in general economic conditions, any of which could have a material adverse impact on operations and financial results.

LIQUIDITY AND CAPITAL RESOURCES

Cash and equivalents, short-term investments, and investments were \$5.2 billion at July 25, 1998, an increase of \$2.6 billion from 1997. The increase is primarily a result of cash generated by operations, and to a lesser extent, through financing activities, mainly the exercise of employee stock options, which generated \$488 million in cash. These cash flows were partially offset by cash outflows from operating activities, including tax payments of approximately \$438 million; cash flows from investing activities including capital expenditures of approximately \$415 million; and cash payments of \$108 million and \$38 million related to the acquisitions of DAGAZ Technologies and CLASS Data Systems, respectively.

Accounts receivable increased 10.9% during 1998, while sales grew by 31.3%. Days sales outstanding in receivables decreased to 49 days as of July 25, 1998 from 60 days at July 26, 1997. Inventories increased 42.1% during 1998. The increase in inventories was primarily because of the shift toward a two-tier distribution model and the need to maintain shorter lead times on certain products. Inventory management remains an area of focus as the Company balances the need to maintain strategic inventory levels to ensure competitive lead times with the risk of inventory obsolescence due to rapidly changing technology and customer requirements.

Accounts payable increased by 20.1% during 1998 because of material purchases to support the growth in net sales. Other accrued liabilities increased by 82.3%, primarily because of higher deferred revenue on service contracts.

At July 25, 1998, the Company had a line of credit totaling \$500 million, which expires in July 2002. There have been no borrowings under this agreement (see Note 6).

The Company has entered into certain lease arrangements in San Jose, California, and Research Triangle Park, North Carolina, where it has established its headquarters operations and certain research and development and customer support activities, respectively. In connection with these transactions, the Company restricted \$554 million of its investments as collateral for certain obligations of the leases. The Company anticipates that it will occupy more leased property in the future that will require similar restricted securities; however, the Company does not expect the impact of this activity to be material to liquidity.

The Company's management believes that its current cash and equivalents, short-term investments, line of credit, and cash generated from operations will satisfy its expected working capital and capital expenditure requirements through fiscal 1999.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per-share amounts)

YEARS ENDED	JULY 25, 1998	JULY 26, 1997	JULY 28, 1996
NET SALES	\$8,458,777	\$6,440,171	\$4,096,007
Cost of sales	2,917,617	2,241,378	1,409,862
Gross margin	5,541,160	4,198,793	2,686,145
Expenses:			
Research and development	1,020,446	698,172	399,291
Sales and marketing	1,564,419	1,160,269	726,278
General and administrative	258,246	204,661	159,770
Purchased research and development	593,695	508,397	
Total operating expenses	3,436,806	2,571,499	1,285,339
OPERATING INCOME	2,104,354	1,627,294	1,400,806
Realized gains on sale of investment	5,411	152,689	
Interest and other income, net	192,701	108,889	64,019
Income before provision for income taxes	2,302,466	1,888,872	1,464,825
Provision for income taxes	952,394	840,193	551,501
NET INCOME	\$1,350,072	\$1,048,679	\$ 913,324
Net income per share--basic	\$ 0.88	\$ 0.71	\$ 0.64
NET INCOME PER SHARE--DILUTED	\$ 0.84	\$ 0.68	\$ 0.61
Shares used in per-share calculation--basic	1,533,869	1,485,986	1,437,030
Shares used in per-share calculation--diluted	1,608,173	1,551,039	1,490,078

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	JULY 25, 1998	JULY 26, 1997
ASSETS		
Current assets:		
Cash and equivalents	\$ 534,652	\$ 269,608
Short-term investments	1,156,849	1,005,977
Accounts receivable, net of allowances for doubtful accounts of \$39,842 in 1998 and \$22,340 in 1997	1,297,867	1,170,401
Inventories, net	361,986	254,677
Deferred income taxes	344,905	312,132
Prepaid expenses and other current assets	65,665	88,471
Total current assets	3,761,924	3,101,266
Investments	3,463,279	1,267,174
Restricted investments	553,780	363,216
Property and equipment, net	595,349	466,352
Other assets	542,373	253,976
TOTAL ASSETS	\$8,916,705	\$5,451,984
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 248,872	\$ 207,178
Income taxes payable	410,363	256,224
Accrued payroll and related expenses	390,542	263,269
Other accrued liabilities	717,203	393,438
Total current liabilities	1,766,980	1,120,109
Commitments and contingencies (Note 7)		
Minority interest	43,107	42,253
Shareholders' equity:		
Preferred stock, no par value, 5,000 shares authorized: none issued or outstanding in 1998 and 1997 (Note 8)		
Common stock and additional paid-in capital, \$0.001 par value (no par value--July 26, 1997) 2,700,000 shares authorized: 1,562,582 shares issued and outstanding in 1998 and 1,509,252 shares in 1997	3,220,205	1,763,200
Retained earnings	3,828,223	2,487,058
Unrealized gain on investments	78,314	49,628
Cumulative translation adjustments	(20,124)	(10,264)
Total shareholders' equity	7,106,618	4,289,622
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$8,916,705	\$5,451,984

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

COMMON STOCK AND
ADDITIONAL PAID-IN CAPITAL

	COMMON STOCK		RETAINED EARNINGS	UNREALIZED GAIN ON INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	AMOUNT				

BALANCES JULY 30, 1995	1,388,646	\$ 508,674	\$ 996,805	\$ 50,948	\$ 5,849	\$1,562,276
Issuance of common stock under stock option and purchase plans	42,913	116,554				116,554
Tax benefits from employee stock plans		198,468				198,468
Common stock repurchases	(6,885)	(3,876)	(111,745)			(115,621)
Acquisitions	36,217	68,247	(21,015)			47,232
Change in unrealized gain on investments				107,900		107,900
Net income			913,324			913,324
Translation adjustments					(10,511)	(10,511)

BALANCES JULY 28, 1996	1,460,891	888,067	1,777,369	158,848	(4,662)	2,819,622
Issuance of common stock under stock option and purchase plans	42,390	280,212				280,212
Tax benefits from employee stock plans		274,341				274,341
Common stock repurchases	(11,250)	(9,590)	(313,222)			(322,812)
Pooling of interests acquisitions	8,582	6,504	(14,748)			(8,244)
Purchase acquisitions	8,639	323,666				323,666
Change in unrealized gain on investments				(109,220)		(109,220)
Adjustment to conform StrataCom, Inc. fiscal year			(11,020)			(11,020)
Net income			1,048,679			1,048,679
Translation adjustments					(5,602)	(5,602)

BALANCES JULY 26, 1997	1,509,252	1,763,200	2,487,058	49,628	(10,264)	4,289,622
Issuance of common stock under stock option and purchase plans	41,266	488,494				488,494
Tax benefits from employee stock plans		420,574				420,574
Pooling of interests acquisitions	1,450	11,557	(8,907)			2,650
Purchase acquisitions	10,614	536,380				536,380
Change in unrealized gain on investments				28,686		28,686
Net income			1,350,072			1,350,072
Translation adjustments					(9,860)	(9,860)

BALANCES JULY 25, 1998	1,562,582	\$3,220,205	\$3,828,223	\$ 78,314	\$(20,124)	\$7,106,618
=====						

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

YEARS ENDED	JULY 25, 1998	JULY 26, 1997	JULY 28, 1996
Cash flows from operating activities:			
Net income	\$1,350,072	\$1,048,679	\$ 913,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	327,333	212,200	132,594
Provision for doubtful accounts	43,463	13,318	18,548
Provision for inventory allowances	160,633	123,431	53,025
Deferred income taxes	(60,115)	(185,944)	(74,292)
Tax benefits from employee stock plans	420,574	274,341	198,468
Adjustment to conform StrataCom, Inc. fiscal year		(11,020)	
Purchased research and development from acquisitions	436,171	273,532	
Change in operating assets and liabilities:			
Accounts receivable	(162,752)	(558,664)	(219,628)
Inventories	(266,450)	(74,374)	(272,408)
Prepaid expenses and other current assets	23,102	7,332	(67,154)
Accounts payable	27,576	52,225	93,773
Income taxes payable	154,139	86,230	97,924
Accrued payroll and related expenses	125,991	66,375	101,221
Other accrued liabilities	300,778	114,462	87,331
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,880,515	1,442,123	1,062,726
Cash flows from investing activities:			
Purchases of short-term investments	(1,611,478)	(1,430,556)	(786,197)
Proceeds from sales and maturities of short-term investments	1,750,547	1,276,379	641,974
Purchases of investments	(3,561,382)	(1,761,952)	(809,098)
Proceeds from sales and maturities of investments	1,106,957	1,052,363	219,178
Purchases of restricted investments	(527,322)	(351,168)	(164,624)
Proceeds from sales and maturities of restricted investments	336,930	218,948	115,429
Acquisition of property and equipment	(414,843)	(330,297)	(282,840)
Acquisition of businesses, net of cash acquired and purchased research and development		(18,642)	
Increase in lease receivables	(170,539)	(19,668)	
Other	(2,975)	(39,415)	8,337
NET CASH USED IN INVESTING ACTIVITIES	(3,094,105)	(1,404,008)	(1,057,841)
Cash flows from financing activities:			
Issuance of common stock	488,494	280,212	116,554
Common stock repurchases		(322,812)	(115,621)
Other	(9,860)	(5,602)	(10,511)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	478,634	(48,202)	(9,578)
Net increase (decrease) in cash and equivalents	265,044	(10,087)	(4,693)
Cash and equivalents, beginning of year	269,608	279,695	284,388
Cash and equivalents, end of year	\$ 534,652	\$ 269,608	\$ 279,695
	JULY 25, 1998	JULY 26, 1997	JULY 28, 1996
Non-cash investing and financing activities:			
Transfers of securities to restricted investments	\$ -	\$ -	\$ 3,586

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Cisco Systems, Inc. (the "Company") provides networking solutions that connect computing devices and computer networks, allowing people to access or transfer information without regard to differences in time, place, or type of computer system. The Company sells its products in approximately 105 countries through a combination of direct sales and reseller and distribution channels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in July. The fiscal years ended July 25, 1998, July 26, 1997, and July 28, 1996 all comprised 52-week years. Prior to fiscal year 1997, the Company's fiscal year was the 52- or 53-week period ending on the last Sunday in July. Fiscal year 1999 will be a 53-week year.

Principles of Consolidation The consolidated financial statements include the accounts of Cisco Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Equivalents The Company considers cash and all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Substantially all of its cash and equivalents are custodied with three major financial institutions.

Investments The Company's investments comprise U.S., state, and municipal government obligations and foreign and corporate securities. Investments with maturities of less than one year are considered short term and are carried at fair value. Nearly all investments are held in the Company's name and custodied with two major financial institutions. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and expense. At July 25, 1998 and July 26, 1997, substantially all of the Company's investments were classified as available for sale. Unrealized gains and losses on these investments are included as a separate component of shareholders' equity, net of any related tax effect.

Inventories Inventories are stated at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis.

Restricted Investments Restricted investments consist of U.S. governmental obligations with maturities of more than one year. These investments are carried at fair value and are restricted as to withdrawal (see Note 7). Restricted investments are held in the Company's name and custodied with two major financial institutions.

Fair Value of Financial Instruments Carrying amounts of certain of the Company's financial instruments, including cash and equivalents, accrued payroll, and other accrued liabilities, approximate fair value because of their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments (see Note 5).

Concentrations Cash and equivalents are, for the most part, maintained with several major financial institutions in the United States. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and therefore, bear minimal risk.

The Company performs ongoing credit evaluations of its customers and generally does not require collateral from its customers.

The Company receives certain of its custom semi-conductor chips for some of its products from sole suppliers. Additionally, the Company relies on a limited number of hardware manufacturers. The inability of any supplier or manufacturer to fulfill supply requirements of the Company could impact future results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition The Company generally recognizes product revenue upon shipment of product. Revenue from service obligations is deferred and recognized over the lives of the contracts. The Company accrues for warranty costs, sales returns, and other allowances at the time of shipment based on its experience.

Depreciation and Amortization Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Such lives vary from two and one-half to five years. Goodwill and other intangible assets are included in other assets and are carried at cost less accumulated amortization, which is being provided on a straight-line basis over the economic lives of the respective assets, generally three to five years. The Company applies the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," in evaluating its fixed and intangible assets.

Income Taxes Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Computation of Net Income per Common Share The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128 in 1998. This statement requires the presentation of basic and diluted net income per share. Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options (see Note 12). The Company has restated all prior period per-share data presented as required by SFAS No. 128.

Restated numbers as computed using the diluted method under SFAS No. 128 approximate those computed using the primary method as defined in Accounting Principals Board Opinion No. 15.

Share and per-share data presented reflect the three-for-two stock splits effective September 1998 and December 1997 and the two-for-one stock split effective February 1996.

Foreign Currency Translation Substantially all of the Company's international subsidiaries use their local currency as their functional currency. For those subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income and expense accounts at average exchange rates during the year. Resulting translation adjustments are recorded directly to a separate component of shareholders' equity. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income.

Derivatives The Company enters into forward exchange contracts to minimize the short-term impact of foreign currency fluctuations on assets and liabilities denominated in currencies other than the functional currency of the reporting entity. All foreign exchange forward contracts are designated as and effective as a hedge and are highly inversely correlated to the hedged item as required by generally accepted accounting principles.

Gains and losses on the contracts are included in other income and offset foreign exchange gains or losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity. Fair values of exchange contracts are determined using published rates. If a derivative contract terminates prior to maturity, the investment is shown at its fair value with the resulting gain or loss reflected in operating results.

Minority Interest Minority interest represents the preferred stockholders' proportionate share of the equity of Nihon Cisco Systems, K.K. At July 25, 1998, the Company owned all issued and outstanding common stock, amounting to 73.2% of the voting rights. Each share of preferred stock is convertible into one share of common stock at any time at the option of the holder.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for doubtful accounts, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Actual results could differ from these estimates.

Recent Accounting Pronouncements In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenue, expenses, gains, and losses) in a full set of general-purpose financial statements. The Company will adopt SFAS No. 130 as required for its first quarterly filing of fiscal year 1999.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which changes the way public companies report information about operating segments. SFAS No. 131, which is based on the management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenue. Management is in the process of evaluating the effects of this change on its reporting of segment information. The Company will adopt SFAS No. 131 as required for its annual report on fiscal year 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management has not yet evaluated the effects of this change on its operations. The Company will adopt SFAS No. 133 as required for its first quarterly filing of fiscal year 2000.

3. BUSINESS COMBINATIONS

Pooling of Interests Combinations On July 9, 1996, the Company acquired StrataCom, Inc. ("StrataCom"). Under the terms of the agreement, one share of the Company's common stock was exchanged for each outstanding share of StrataCom. Approximately 171.9 million shares of common stock were issued to acquire StrataCom. The Company also assumed remaining outstanding StrataCom stock options that were converted to options to purchase approximately 25.9 million shares of the Company's common stock. The transaction was accounted for as a pooling of interests in fiscal year 1996; therefore, all prior periods presented were restated. In order for both companies to operate on the same fiscal year for 1997, StrataCom's operations for the one-month period ended July 28, 1996, which are not material to the Company, have been reflected as an adjustment to retained earnings in the first quarter of fiscal 1997.

The Company has also completed a number of other pooling transactions. The historical operations of these entities are not material to the Company's consolidated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

operations on either an individual or an aggregated basis; therefore, prior period statements have not been restated for these acquisitions. These transactions are summarized as follows (in millions of shares):

FISCAL YEAR	ACQUIRED COMPANIES	TOTAL SHARES OF CISCO STOCK ISSUED
1996	Combinet, Inc. Grand Junction Networks, Inc. TGV Software, Inc.	7.9 20.6 5.5
1997	Nashoba Networks Granite Systems, Inc.	3.6 5.0
1998	Precept Software, Inc.	1.5

In conjunction with these poolings, the Company also assumed the outstanding options of these companies, which were converted to options to purchase approximately 8.5 million shares of the Company's common stock.

PURCHASE COMBINATIONS During the three years ended July 25, 1998, the Company made a number of purchase acquisitions. The consolidated financial statements include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented, because the effects of these acquisitions were not material on either an individual or an aggregated basis.

The amounts allocated to purchased research and development were determined through established valuation techniques in the high-technology communications industry and were expensed upon acquisition, because technological feasibility had not been established and no future alternative uses existed. Research and development costs to bring the products from the acquired companies to technological feasibility are not expected to have a material impact on the Company's future results of operations or cash flows. Amounts allocated to goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding five years. Each transaction is outlined on the following page.

Summary of purchase transactions (in millions):

ENTITY NAME	CONSIDERATION	DATE	PURCHASED RESEARCH AND DEVELOPMENT CHARGE	FORM OF CONSIDERATION AND OTHER NOTES TO ACQUISITION
FISCAL 1997				
Telebit Corp.	\$200	Oct. 1996	\$174	Cash
Netsys Technologies	\$ 85	Nov. 1996	\$ 43	\$81 in common stock and \$4 in liabilities assumed; goodwill and other intangibles recorded of \$42
Skystone Systems Corp.	\$ 92	July 1997	\$ 89	\$69 in common stock and \$23 in cash
Ardent Communications	\$165	July 1997	\$164	Common stock
Global Internet Software Group	\$ 40	July 1997	\$ 38	Cash
FISCAL 1998				
DAGAZ Technologies, Inc.	\$130	Aug. 1997	\$127	\$108 in cash, \$18 in common stock, and assumed liabilities of \$4
LightSpeed International, Inc.	\$161	Feb. 1998	\$143	Common stock and options assumed; other intangibles recorded of \$15
WheelGroup Corp.	\$124	Mar. 1998	\$ 97	Common stock and options assumed; goodwill and other intangibles recorded of \$38
NetSpeed International, Inc.	\$252	Apr. 1998	\$179	\$222 in common stock and options assumed, \$12 cash, and \$18 in liabilities assumed; goodwill and other intangibles recorded of \$76
CLASS Data Systems	\$ 51	June 1998	\$ 48	Cash and options assumed

PENDING BUSINESS COMBINATIONS In July 1998, the Company signed a definitive agreement to purchase publicly held Summa Four, Inc. (Summa Four), a provider of programmable switches. Under the terms of the agreement, between 1.6 and 2.0 million shares of the Company's common stock will be exchanged for all of the outstanding shares and options of Summa Four. The agreement is subject to the receipt of certain government approvals and the approval of Summa Four shareholders. The deal is expected to be consummated in the first or second quarter of fiscal 1999. The historical operations of Summa Four are not expected to be material to the financial position or results of operations of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. BALANCE SHEET DETAIL (in thousands):

	JULY 25, 1998	JULY 26, 1997

Inventories, net:		
Raw materials	\$ 75,937	\$ 89,226
Work in process	143,383	114,724
Finished goods	110,646	21,733
Demonstration systems	32,020	28,994

Total	\$ 361,986	\$254,677
=====		
Property and equipment, net:		
Leasehold improvements	\$ 152,570	\$ 88,801
Computer equipment and related software	533,930	394,735
Production and engineering equipment	137,676	108,520
Office equipment, furniture, fixtures, and other	440,475	290,129

	1,264,651	882,185
Less accumulated depreciation and amortization	(669,302)	(415,833)

Total	\$ 595,349	\$466,352
=====		
Accrued payroll and related expenses:		
Accrued wages, paid time off, and related expenses	\$ 170,446	\$127,779
Accrued commissions	82,767	66,851
Accrued bonuses	137,329	68,639

Total	\$ 390,542	\$263,269
=====		
Other accrued liabilities:		
Deferred revenue	\$ 330,000	\$183,268
Accrued warranties	48,109	41,526
Other liabilities	339,094	168,644

Total	\$ 717,203	\$393,438
=====		

5. INVESTMENTS

The following tables summarize the Company's investment in securities (in thousands):

JULY 25, 1998	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. government notes and bonds	\$ 978,308	\$ 2,596	\$ (447)	\$ 980,457
State, municipal, and county government notes and bonds	3,215,316	11,319	(2,870)	3,223,765
Foreign government notes and bonds	30,848	-	(71)	30,777
Corporate notes and bonds	767,877	545	(972)	767,450
Corporate equity securities	55,252	137,117	(20,910)	171,459
Total	\$5,047,601	\$151,577	\$(25,270)	\$5,173,908
Reported as:				
Short-term investments				\$1,156,849
Investments				3,463,279
Restricted investments				553,780
Total				\$5,173,908

JULY 26, 1997	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. government notes and bonds	\$ 609,580	\$ 1,407	\$ (960)	\$ 610,027
State, municipal, and county government notes and bonds	1,313,652	6,214	(755)	1,319,111
Foreign government notes and bonds	31,565	29	(111)	31,483
Corporate notes and bonds	562,039	594	(589)	562,044
Corporate equity securities	40,759	89,390	(16,447)	113,702
Total	\$2,557,595	\$ 97,634	\$(18,862)	\$2,636,367
Reported as:				
Short-term investments				\$1,005,977
Investments				1,267,174
Restricted investments				363,216
Total				\$2,636,367

The following table summarizes debt maturities (including restricted investments) at July 25,1998 (in thousands):

	AMORTIZED COST	FAIR VALUE
Less than one year	\$1,415,707	\$1,414,444
Due in 1-2 years	857,306	887,140
Due in 2-5 years	2,505,377	2,508,387
Due after 5 years	213,959	192,478
Total	\$4,992,349	\$5,002,449

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal year 1997, the Company began to sell its minority equity position in a publicly traded company which was completed in fiscal year 1998. Also, in fiscal 1997, the Company established the Cisco Systems Foundation ("the Foundation"). As part of this initiative, the Company donated a portion of the equity investment, along with other equity securities, to the Foundation, with a combined cost basis of approximately \$2 million and an approximate fair value of \$72 million at July 26, 1997. The realized gains reported on the sale of this investment, net of the 1997 donation to the Foundation, were \$153 million in fiscal 1997 and \$5 million in fiscal 1998.

6. LINE OF CREDIT

As of July 25, 1998, the Company had a syndicated credit agreement under the terms of which a group of banks committed a maximum of \$500 million on an unsecured, revolving basis for cash borrowings of various maturities. The commitments made under this agreement expire on July 1, 2002. Under the terms of the agreement, borrowings bear interest at a spread over the London Interbank Offered Rate based on certain financial criteria and third-party rating assessments. As of July 25, 1998, this spread was 20 basis points. A commitment fee of 7 basis points is assessed against any undrawn amounts. The agreement includes a single financial covenant that places a variable floor on tangible net worth, as defined, if certain leverage ratios are exceeded. There have been no borrowings under this agreement.

7. COMMITMENTS AND CONTINGENCIES

Leases The Company has entered into several agreements to lease 448 acres of land located in San Jose, California, where it has established its headquarters operations, and 45 acres of land located in Research Triangle Park, North Carolina, where it has expanded certain research and development and customer support activities. All of the leases have initial terms of five to seven years and options to renew for an additional three to five years, subject to certain conditions. At any time during the terms of these land leases, the Company may purchase the land. If the Company elects not to purchase the land at the end of each of the leases, the Company has guaranteed a residual value of \$560 million.

The Company has also entered into agreements to lease certain buildings to be constructed on the land described above. The lessors of the buildings have committed to fund up to a maximum of \$706 million (subject to reductions based on certain conditions in the respective leases) for the construction of the buildings, with the portion of the committed amount actually used to be determined by the Company. Rent obligations for the buildings commence on various dates and will expire at the same time as the land leases.

The Company has an option to renew the building leases for an additional three to five years, subject to certain conditions. The Company may, at its option, purchase the buildings during or at the ends of the terms of the leases at approximately the amount expended by the lessors to construct the buildings. If the Company does not exercise the purchase options by the ends of the leases, the Company will guarantee a residual value of the buildings as determined at the lease inception date of each agreement (approximately \$323 million at July 25, 1998).

As part of the above lease transactions, the Company restricted \$554 million of its investment securities as collateral for specified obligations of the lessor under the leases. These investment securities are restricted as to withdrawal and are managed by a third party subject to certain limitations under the Company's investment policy. In addition, the Company must maintain a minimum consolidated tangible net worth, as defined, of \$2.8 billion.

The Company also leases office space in Santa Clara, California; Chelmsford, Massachusetts; and for its various U.S. and international sales offices.

Future annual minimum lease payments under all noncancelable operating leases as of July 25, 1998, are as follows (in thousands):

1999	\$ 95,855
2000	84,475
2001	64,473
2002	50,209
2003	41,193
Thereafter	82,199
Total minimum lease payments	\$418,404

Rent expense totaled \$87 million, \$64 million, and \$37 million for 1998, 1997, and 1996, respectively.

Forward Exchange Contracts The Company conducts business on a global basis in several major international currencies. As such, it is exposed to adverse movements in foreign currency exchange rates. The Company enters into forward foreign exchange contracts to reduce certain currency exposures. These contracts hedge exposures associated with nonfunctional currency assets and liabilities denominated in Japanese, Canadian, Australian, and several European currencies. At the present time, the Company hedges only those currency exposures associated with certain nonfunctional currency assets and liabilities and does not generally hedge anticipated foreign currency cash flows.

The Company does not enter into forward exchange contracts for trading purposes. Gains and losses on the contracts are included in other income and offset foreign exchange gains or losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity. The Company's forward currency contracts generally range from one to three months in original maturity. Forward exchange contracts outstanding and their unrealized gains and (losses) as of July 25, 1998, which are recorded in other assets, are summarized as follows (in thousands):

	NOTIONAL VALUE PURCHASED	NOTIONAL VALUE SOLD	UNREALIZED GAIN/(LOSS)
Japanese yen	\$ -	\$ (30,490)	\$ (11)
Australian dollar	-	(36,184)	32
Canadian dollar	6,008	(66,900)	22
European currencies	160,119	(19,647)	53
Total	\$166,127	\$ (153,221)	\$ 96

The Company's forward exchange contracts contain credit risk in that its banking counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counter-parties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties.

Legal Proceedings Lucent Technologies, Inc. ("Lucent") brought suit in Federal District Court in Delaware in June 1998, alleging that the Company violated eight of Lucent's patents related to data networking. Lucent is seeking damages for infringement and an injunction prohibiting future use of the patents. This case is in the preliminary stages of discovery; however, management believes that the Company has meritorious defenses and intends to defend its position vigorously. Management of the Company is currently unable to predict the final outcome of this matter and the ultimate effect, if any, on the Company's consolidated financial position, results of operations, or cash flows.

The Company and its subsidiaries are subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company's management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. SHAREHOLDERS' EQUITY

Stock Splits In August 1998, the Company's Board of Directors approved a three-for-two split of the Company's common stock that was applicable to shareholders of record on August 14, 1998 and effective on September 15, 1998. All references to share and per-share data for all periods presented have been adjusted to give effect to this three-for-two stock split, the three-for-two stock split effective December 1997, as well as the two-for-one stock split effective February 1996.

Par Value At the Annual Meeting of Shareholders held on November 13, 1997, the shareholders approved an amendment to the Articles of Incorporation changing the par value of the Company's Common Stock from zero to \$0.001 per share. As a result, the Company has transferred the additional paid-in capital to a separate account; however, for financial statement purposes, the additional paid-in capital account has been combined with the common stock account and reflected on the balance sheet as "Common stock and additional paid-in capital."

Shareholder Rights Plan In June 1998, the Company's Board of Directors approved a Shareholders' Rights Plan. This plan is intended to protect shareholders' rights in the event of an unsolicited takeover attempt. It is not intended to prevent a takeover of the Company on terms that are favorable and fair to all shareholders and will not interfere with a merger approved by the Board of Directors. Each right entitles shareholders to buy a "unit" equal to one fifteen-thousandth of a new share of Series A Preferred Stock of the Company. The rights will be exercisable only if a person or a group acquires or announces a tender or exchange offer to acquire 15% or more of the Company's common stock.

In the event the rights become exercisable, the rights plan allows for Cisco shareholders to acquire, at an exercise price of \$433 per right owned, stock of the surviving corporation having a market value of \$867, whether or not Cisco is the surviving corporation. The dividend was distributed to shareholders of record in June 1998. The rights, which expire June 2008, are redeemable for \$0.00067 per right at the approval of the Company's Board of Directors.

Preferred Stock Under the terms of the Company's Articles of Incorporation, the Board of Directors may determine the rights, preferences, and terms of the Company's authorized but unissued shares of preferred stock.

9. EMPLOYEE BENEFIT PLANS

Employee Stock Purchase Plan The Company has an Employee Stock Purchase Plan ("the Purchase Plan") under which 55.7 million shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's stock at 85% of the market value at certain plan-defined dates.

In November 1997, the shareholders approved an amendment to the Purchase Plan which, among other changes, increased the maximum number of shares of Common Stock authorized for issuance over the term of the Purchase Plan by 33.8 million common shares, which is reflected in the number above, and extended the term of the Plan from January 3, 2000 to January 3, 2005. In fiscal 1998, 1997, and 1996, 3.3 million, 3.1 million, and 2.9 million shares, respectively, were issued under the Purchase Plan. At July 25, 1998, 34.9 million shares were available for issuance under the Purchase Plan.

Stock Option Plans In November 1996, the Company's shareholders approved the 1996 Stock Incentive Plan (the "1996 Plan"). This plan was the successor to the Company's 1987 Stock Option Plan (the "Predecessor Plan"). All outstanding options under the Predecessor Plan were transferred to the 1996 Plan. However, all outstanding options under the Predecessor Plan continue to be governed by the terms and conditions of the existing option agreements for those grants. The maximum number of shares under the 1996 Plan was initially limited to the 154.9 million shares transferred

from the Predecessor Plan. Under the terms of the 1996 Plan, the share reserve will increase each December for the next three fiscal years, beginning with fiscal 1997, by an amount equal to 4.75% of the outstanding shares on the last trading day of the immediately preceding November. Although the Board has the authority to set other terms, the options are generally 25% exercisable one year from the date of grant and then ratably over the following 36 months. Options issued under the Predecessor Plan generally had terms of five years. New options granted under the 1996 Plan expire no later than nine years from the grant date.

A summary of option activity follows (in thousands, except per-share amounts):

	OPTIONS AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	
		OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
BALANCES, JULY 30, 1995	(6,559)	121,187	\$ 6.80
Granted and assumed	(79,133)	79,133	11.26
Exercised		(39,985)	2.10
Canceled	4,885	(4,885)	9.03
Additional shares reserved	117,383		
BALANCES, JULY 28, 1996	36,576	155,450	10.20
Granted and assumed	(95,405)	95,405	21.74
Exercised		(39,338)	5.67
Canceled	10,514	(10,514)	15.28
Additional shares reserved	71,584		
BALANCES, JULY 26, 1997	23,269	201,003	16.30
Granted and assumed	(63,447)	63,447	43.85
Exercised		(37,931)	10.62
Canceled	10,867	(10,867)	19.73
Additional shares reserved	72,482		
BALANCES, JULY 25, 1998	43,171	215,652	\$25.23

The Company has, in connection with the acquisition of various companies, assumed the stock option plans of each acquired company. A total of 13.5 million shares of the Company's common stock have been reserved for issuance under the assumed plans, and the related options are included in the preceding table.

The following tables summarize information concerning outstanding and exercisable options at July 25, 1998 (in thousands, except per-share amounts):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
\$ 0.01-12.46	50,651	3.4	\$ 7.39	37,726	\$ 7.24
12.83-20.67	48,095	7.0	19.16	18,230	18.34
21.06-23.22	36,454	7.1	22.44	14,358	22.42
23.72-43.96	36,590	7.7	31.65	7,369	27.24
46.00-61.96	43,862	8.7	49.47	13	49.74
Total	215,652	6.6	\$25.23	77,696	\$14.55

At July 26, 1997 and July 28, 1996, approximately 55.9 million, and 48.9 million outstanding options, respectively, were exercisable. The weighted average exercise prices for options were \$9.18 and \$5.08 at July 26, 1997, and July 28, 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS No. 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's Statements of Operations, because APB 25, "Accounting for Stock Issued to Employees," specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees.

SFAS No. 123 pro forma numbers are as follows (in thousands, except per-share amounts and percentages):

	1998	1997	1996
Net income as reported under APB 25	\$1,350,072	\$1,048,679	\$913,324
Net income pro forma under SFAS 123	\$1,108,809	\$ 897,939	\$872,263
Basic net income per common share--as reported under APB 25	\$ 0.88	\$ 0.71	\$ 0.64
Diluted net income per common share--as reported under APB 25	\$ 0.84	\$ 0.68	\$ 0.61
Basic net income per common share--pro forma under SFAS 123	\$ 0.72	\$ 0.60	\$ 0.61
Diluted net income per common share--pro forma under SFAS 123	\$ 0.70	\$ 0.59	\$ 0.59

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	EMPLOYEE STOCK OPTIONS			EMPLOYEE STOCK PURCHASE PLAN		
	1998	1997	1996	1998	1997	1996
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.7%	6.4%	5.9%	5.4%	5.3%	5.4%
Expected volatility	35.6%	32.8%	32.9%	44.8%	44.4%	44.9%
Expected life (in years)	3.1	3.1	3.1	0.5	0.5	0.5

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options. The weighted average estimated fair values of employee stock options granted during fiscal 1998, 1997, and 1996 were \$14.27, \$6.93, and \$5.93 per share, respectively.

The above pro forma disclosures are also not likely to be representative of the effects on net income and net income per common share in future years, because they do not take into consideration pro forma compensation expense related to grants made prior to the Company's fiscal year 1996.

Employee 401(k) Plans The Company has adopted a plan known as the Cisco Systems, Inc. 401(k) Plan ("the Plan") to provide retirement and incidental benefits for its employees. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary deductions for eligible employees.

Employees may contribute from 1% to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company matches employee contributions dollar for dollar up to a maximum of \$1,500 per year per person. All matching contributions vest immediately. In addition, the Plan provides for discretionary contributions as determined by the Board of Directors. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants.

Company matching contributions to the Plan totaled \$15 million in 1998, \$13 million in 1997, and \$7 million in 1996. No discretionary contributions were made in 1998, 1997, or 1996.

10. INCOME TAXES

The provision (benefit) for income taxes consists of (in thousands):

	1998	1997	1996

Federal:			
Current	\$ 851,916	\$ 845,254	\$ 514,050
Deferred	(39,088)	(171,571)	(64,133)
	812,828	673,683	449,917
=====			
State:			
Current	86,428	153,110	92,291
Deferred	(7,466)	(15,043)	(6,907)
	78,962	138,067	85,384
=====			
Foreign:			
Current	74,165	27,773	19,452
Deferred	(13,561)	670	(3,252)
	60,604	28,443	16,200

Total provision	\$ 952,394	\$ 840,193	\$ 551,501
=====			

Income (loss) before provision for income taxes consisted of the following:

	1998	1997	1996

U.S.	\$ 1,981,585	\$ 2,009,118	\$ 1,433,315
Foreign	320,881	(120,246)	31,510
	\$ 2,302,466	\$ 1,888,872	\$ 1,464,825
=====			

The Company paid income taxes of \$438 million, \$659 million, and \$335 million in fiscal 1998, 1997, and 1996, respectively. The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes follow:

	1998	1997	1996

Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
State taxes, net of federal benefits	2.2	4.5	3.6
Foreign sales corporation	(2.4)	(3.3)	(2.9)
Nondeductible purchased R&D	6.4	7.1	
Tax-exempt interest	(1.6)	(1.0)	(1.0)
Tax credits	(1.4)	(1.3)	(0.3)
Other, net	3.2	3.5	3.2
	41.4%	44.5%	37.6%
=====			

The components of the deferred income tax assets (liabilities) follow (in thousands):

	JULY 25, 1998	JULY 26, 1997

Assets:		
Allowance for doubtful accounts and returns	\$ 133,818	\$ 38,008
Other nondeductible accruals	130,617	141,300
Purchased research and development	92,271	81,115
Inventory allowances and capitalization	67,620	89,984
Accrued state franchise tax	27,697	29,231
Depreciation	23,417	11,031
Deferred revenue		16,629
	475,440	407,298

Liabilities:		
Deferred revenue	(26,472)	

Unrealized gain on investments	(47,996)	(29,146)

Total deferred tax liabilities	(74,468)	(29,146)

	\$ 400,972	\$ 378,152
=====		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The noncurrent portion of the deferred income tax assets, which totaled \$56 million at July 25, 1998 and \$66 million at July 26, 1997, is included in other assets.

The Company's income taxes payable for federal, state, and foreign purposes have been reduced by the tax benefits of disqualifying dispositions of stock options. The benefit is the difference between the market value of the stock issued at the time of exercise and the option price tax effected.

11. GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

The Company operates in a single industry segment encompassing the design, development, manufacture, marketing, and technical support of networking products and services.

In 1998, 1997, and 1996, no single customer accounted for 10% or more of the Company's net sales. International sales, primarily in Europe, the Pacific region, and Canada, were \$3,463 million in 1998, \$2,803 million in 1997, and \$1,976 million in 1996. Export sales, primarily to these regions, were \$660 million in 1998, \$1,939 million in 1997, and \$1,530 million in 1996.

Summarized financial information by geographic region for 1998, 1997, and 1996 is as follows (in thousands):

	1998	1997	1996

Sales:			
United States	\$ 7,903,326	\$ 6,328,720	\$ 4,024,482
Europe	2,281,423	396,276	75,721
Other	521,178	467,579	370,716
Eliminations	(2,247,150)	(752,404)	(374,912)

Total	\$ 8,458,777	\$ 6,440,171	\$ 4,096,007
=====			
Operating income:			
United States	\$ 1,374,358	\$ 1,581,622	\$ 1,379,994
Europe	705,640	25,495	5,563
Other	24,757	23,255	17,141
Eliminations	(401)	(3,078)	(1,892)

Total	\$ 2,104,354	\$ 1,627,294	\$ 1,400,806
=====			
Identifiable assets:			
United States	\$ 8,103,629	\$ 5,041,225	
Europe	716,623	352,928	
Other	189,388	152,187	
Eliminations	(92,935)	(94,356)	

Total	\$ 8,916,705	\$ 5,451,984	
=====			

12. EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per share as required under SFAS 128 (in thousands, except per-share amounts):

	1998	1997	1996

Net income	\$1,350,072	\$1,048,679	\$ 913,324
=====			
Weighted average shares--basic	1,533,869	1,485,986	1,437,030
Effect of dilutive securities:			
Employee stock options	74,304	65,053	53,048

Weighted average shares--diluted	1,608,173	1,551,039	1,490,078
=====			
Net income per share--basic	\$ 0.88	\$ 0.71	\$ 0.64
=====			
Net income per share--diluted	\$ 0.84	\$ 0.68	\$ 0.61
=====			

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Cisco Systems, Inc.
San Jose, California

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Cisco Systems, Inc. and its subsidiaries at July 25, 1998 and July 26, 1997, and the results of their operations and their cash flows for each of the three years in the period ended July 25, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

*San Jose, California
August 4, 1998*

SUPPLEMENTARY FINANCIAL DATA

(unaudited) (in thousands, except per-share amounts)

	1998				1997			
	JULY 25, 1998	APR. 25, 1998	JAN. 24, 1998	OCT. 25, 1997	JULY 26, 1997	APR. 26, 1997	JAN. 25, 1997	OCT. 26, 1996
Net sales	\$2,389,989	\$2,183,756	\$2,016,315	\$1,868,717	\$1,765,097	\$1,647,871	\$1,592,377	\$1,434,826
Gross margin	1,571,054	1,434,029	1,319,541	1,216,536	1,149,057	1,076,532	1,039,858	933,346
Operating income	696,646	272,736	659,693	475,279	286,453	539,130	488,551	313,160
Income before provision for income taxes	756,426	324,783	703,511	517,746	335,701	600,511	562,914	389,746
Net income	\$ 491,677(1)	\$ 64,578(2)	\$ 457,282	\$ 336,535(3)	\$ 150,957(4)	\$ 378,321(5)	\$ 338,459(6)	\$ 180,942(7)
Net income per common share--basic(*)	\$.32	\$.04	\$.30	\$.22	\$.10	\$.25	\$.23	\$.13
Net income per common share--diluted(*)	\$.30(1)	\$.04(2)	\$.29	\$.21(3)	\$.10(4)	\$.24(5)	\$.22(6)	\$.12(7)

(*) Reflects the three-for-two stock split effective September 1998.

(1) Net income and net income per share include purchased research and development expenses of \$47.8 million. Pro forma net income and diluted net income per share, excluding this nonrecurring item net of tax, would have been \$522.8 million and \$0.32, respectively.

(2) Net income and net income per share include purchased research and development expenses of \$418.7 million. Pro forma net income and diluted net income per share, excluding this nonrecurring item net of tax, would have been \$483.2 million and \$0.30, respectively.

(3) Net income and net income per share include purchased research and development expenses of \$127.2 million and realized gains on the sale of a minority stock investment of \$5.4 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$415.7 million and \$0.26, respectively.

(4) Net income and net income per share include purchased research and development expenses of \$290.6 million and realized gains on the sale of a minority stock investment of \$18.0 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$383.2 million and \$0.24, respectively.

(5) Net income and net income per share include realized gains on the sale of a minority stock investment of \$32.3 million. Pro forma net income and diluted net income per share, excluding this nonrecurring item net of tax, would have been \$358.0 million and \$0.23, respectively.

(6) Net income and net income per share include purchased research and development expenses of \$43.2 million and realized gains on the sale of a minority stock investment of \$47.3 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$351.9 million and \$0.23, respectively.

(7) Net income and net income per share include purchased research and development expenses of \$174.6 million and realized gains on the sale of a minority stock investment of \$55.1 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$320.8 million and \$0.21, respectively.

STOCK MARKET INFORMATION

Cisco Systems' common stock (Nasdaq symbol CSCO) is traded on the Nasdaq National Market. The following table sets forth the range of high and low closing prices for each period indicated, adjusted to reflect the three-for-two splits effective September 1998 and December 1997, and the two-for-one split effective February 1996:

	1998		1997		1996	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
First quarter	\$37.47	\$31.00	\$29.78	\$22.22	\$17.17	\$11.61
Second quarter	40.19	32.39	33.28	25.61	19.53	14.53
Third quarter	49.25	37.75	31.00	20.61	23.28	18.03
Fourth quarter	68.79	46.96	35.72	20.67	26.11	20.94

The Company has never paid cash dividends on the common stock and has no present plans to do so. There were approximately 16,950 shareholders of record on July 25, 1998.

EXHIBIT 21.01

SUBSIDIARIES

Cisco Systems Canada Limited
Cisco Systems Europe, S.A.R.L. (France)
Cisco Systems Import/Export Corporation (U.S. Virgin Islands) Cisco Systems Belgium, S.A.
Cisco Systems Limited (U.K.)
Cisco Systems Australia PTY. Limited
Nihon Cisco Systems, K.K. (Japan)
Cisco Systems de Mexico, S.A. de C.V.
Cisco Systems New Zealand Limited
Cisco Systems (HK) Limited (Hong Kong)
Cisco Systems GmbH (Germany)
Cisco Systems (Italy) Srl
Cisco Systems GesmbH (Austria)
Cisco do Brasil Ltda. (Brazil)
Cisco Systems (Korea) Ltd.
VZ, Cisco Systems, C.A. (Venezuela)
Cisco Systems South Africa (Pty) Ltd.
Cisco Systems Sweden Aktiebolag
Cisco Systems (Switzerland) AG
Cisco Systems Netherlands, B.V.
Cisco Systems International Netherlands, B.V. Cisco Systems Czech Republic, s.r.o.
Cisco Systems Spain, S.L.
Cisco Systems Argentina S.A.
Cisco Systems Chile, S.A.
Cisco Sistemas de Redes S.A., (Costa Rica) Cisco Systems Malaysia, Sdn. Bhd.
Cisco Systems (USA) Pte. Ltd., Singapore Cisco Systems Thailand, Ltd.
Cisco Systems Peru, S.A.
Cisco Systems Greece, S.A.
Cisco Systems Poland, Sp.zo.o
Cisco Systems Israel, Ltd.
Cisco Systems Internetworking Iletsim Hizmetleri Ltd.Sirketi

(Turkey)

Cisco Systems (India), Ltd. (DE,USA)
Cisco Systems Capital Corp. (USA)
Cisco Systems (Taiwan),Ltd.
Cisco Systems (Colombia), Ltda
Cisco Technology, Inc.
Cisco Systems Sales & Service, Inc.
Skystone Systems Company (Canada)
Telebit, Corporation (CA,USA)
Cisco Systems Danmark AS
Cisco Systems Norway AS
Cisco Systems Hungary, Ltd.
Cisco Systems Management B.V.
Cisco Systems (Puerto Rico) Corp.
Cisco Systems Finland Oy
Cisco Systems (China) Networking Technologies Ltd. Cisco Systems Romania SRL
Cisco Systems Croatia Ltd. for Trade
Cisco Systems Slovakia, spol. sr.o

EXHIBIT 23.02

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Cisco Systems, Inc. on Form S-3 (File Numbers: 333-17839, 333-20127, 333-24559, 333-33093, 333-33663, 333-36197) and on Form S-8 (File Numbers: 33-34849, 33-40509, 33-44221, 33-70644, 33-71860, 33-83268, 33-87100, 33-87096, 33-63331, 33-64283, 33-64283[Post Eff.], 33-01069, 333-02101, 333-05447, 333-09903, 333-14383, 333-14679, 333-14661, 333-16577, 333-17287, 333-24741, 333-33619, 333-33613, 333-35805) of our reports dated August 4, 1998, on our audits of the consolidated financial statements and financial statement schedule of Cisco Systems, Inc. as of July 25, 1998 and July 26, 1997, and for the three years ended July 25, 1998 which reports are incorporated by reference in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

*San Jose, California
September 23, 1998*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET, CONSOLIDATED STATEMENT OF OPERATIONS AND CONSOLIDATED STATEMENT OF CASH FLOWS INCLUDED IN THE COMPANY'S FORM 10-K FOR THE PERIOD ENDING JULY 25, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUL 25 1998
PERIOD START	JUL 26 1997
PERIOD END	JUL 25 1998
CASH	534,652
SECURITIES	5,173,908
RECEIVABLES	1,337,709
ALLOWANCES	39,842
INVENTORY	361,986
CURRENT ASSETS	3,761,924
PP&E	1,264,651
DEPRECIATION	669,302
TOTAL ASSETS	8,916,705
CURRENT LIABILITIES	1,766,980
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	3,220,205
OTHER SE	3,886,413
TOTAL LIABILITY AND EQUITY	8,916,705
SALES	8,458,777
TOTAL REVENUES	8,458,777
CGS	2,917,617
TOTAL COSTS	6,354,423
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	2,302,466
INCOME TAX	952,394
INCOME CONTINUING	1,350,072
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,350,072
EPS PRIMARY	0.88 ¹
EPS DILUTED	0.84

¹ FOR PURPOSES OF THIS STATEMENT, PRIMARY MEANS BASIC.

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