

CISCO SYSTEMS, INC.

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 09/28/99 for the Period Ending 07/31/99

Address	170 WEST TASMAN DR SAN JOSE, CA 95134-1706
Telephone	4085264000
CIK	0000858877
Symbol	CSCO
SIC Code	3576 - Computer Communications Equipment
Industry	Communications Equipment
Sector	Technology
Fiscal Year	07/28

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

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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 31, 1999

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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 X 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 20, 1999, the approximate aggregate market value of voting stock held by non-affiliates of the registrant was \$ 235,936,179,459 (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 20, 1999, 3,297,512,440 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's Annual Report to Shareholders for its fiscal year ended July 31, 1999 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 1999 Annual Meeting of Shareholders, to be held on November 10, 1999, 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 28.

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 "Risk Factors" section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Cisco Systems, Inc.'s 1999 Annual Report to Shareholders, which section is incorporated herein by reference, as well as the "Risk Factors" section contained herein, which identify important risk factors that could cause actual results to differ materially from those contained in the forward looking statements.

Cisco Systems, Inc. and its subsidiaries (together with its subsidiaries "Cisco", or the "Company") is the worldwide leader in networking for the Internet. Cisco 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.

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 and is headquartered in San Jose. The mailing address for the Company's headquarters is 170 West Tasman Drive, San Jose, California, 95134, and its telephone number at that location is 408 526-4000. Cisco can also be reached at its Web site <http://www.cisco.com>.

END-TO-END NETWORKING SOLUTIONS

The Cisco strategy is to provide end-to-end networking solutions to help its customers improve productivity and gain a competitive advantage in today's global economy. Cisco helps its customers build their own network infrastructure while also providing tools to allow them to communicate 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 products and services. Products are used individually or in combinations to connect computing devices to networks or computer networks with each other -- whether they are within a building, across

a campus, or around the world. The Company's breadth of product offerings enables it to configure hardware and software features to meet customer requirements. Many of the Company's products are easily upgraded, offering customers the option to expand their networks as their needs grow.

The Company is now also delivering video and voice capabilities in its products, allowing customers to transition their data networks to a single multiservice data, voice, and video network.

Cisco product offerings fall into several categories:

Routing

Routing is a foundation technology for computer networking. 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 gigabit switch router (GSR) series, 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 solutions employ all widely used switching technologies -- Ethernet, Gigabit Ethernet, Token Ring, and Asynchronous Transfer Mode (ATM). Cisco LAN switching products include the Catalyst(R) product family, and its WAN switching products include the IGX(TM), BPX(R), TGX, and MGX(TM) families.

Access

Today, people need to access their computers and communicate from the home, from remote locations, and while traveling. Cisco 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 Integrated Services Digital Network (ISDN) remote-access routers, dialup access servers, Digital Subscriber Line (DSL) technologies, and cable universal broadband routers provide telecommuters and mobile workers with Internet access and branch-office connectivity. The Company's access products include the AS5000 family of access servers, the Cisco 6100 and 6200 lines of Digital Subscriber Line Access Multiplexers (DSLAM), and the Cisco uBR7200 Universal Broadband Router cable head-end equipment; access routers such as the Cisco 6000, 4000, 3800, 3600, 2600, 2500, 1700, 1600, 1000, 800, and 700 families, and the Cisco ISR 3303 Integrated SONET/SDH Router, and network security and management software.

Systems Network Architecture (SNA)/LAN

Most large organizations have existing IBM computing systems that use the Systems Network Architecture (SNA) networking method as well as LANs based on open network architectures (such as the Transmission Control Protocol/Internet Protocol (TCP/IP)). 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(R) 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 challenges posed by the growing popularity of the Internet, such as network traffic volume and network address shortages. Cisco 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 (QoS) and end-to-end security. Cisco Internet Services products include: the PIX Firewall family, which prevents unauthorized access to a network; the NetSonar(TM) System, which scans the network for security risks; the NetRanger(R) System, which detects and responds to unauthorized activity or network attacks; Cisco Secure VPN Client 1.0, which ensures data privacy when accessing the network remotely; 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 IOS Software is the common networking software product deployed across a broad spectrum of Cisco systems for an integrated solution. Cisco IOS software delivers intelligent network services -- such as QoS, load-balancing and multicast functions -- that enable customers to build a flexible network infrastructure that is scalable, reliable, and secure. These intelligent network services also support next-generation Internet applications.

Among the emerging types of applications that require these features are on-demand media, electronic commerce services, real-time trading, and distance- learning activities. These applications form the foundation for new business models that increase competition, improve customer service, and reduce the cost of network services.

Network Management Software

Cisco is extending its leading Internet business practices to its network management vision and products. For example, Cisco 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, on-line knowledge base, and enterprise network infrastructure devices. One component of this initiative is CiscoWorks2000, a family of products based on Internet standards that enables enterprise customers to better control their large, complex, and heterogeneous networks and 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 provides 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.

Cisco recently created a new business group focused on building software solutions to expand the Company's technology offerings into messaging and call centers, and extend Cisco's presence in the broader market for intelligent customer contact software applications. Software applications from this team will provide end users with the ability to unify voicemail, email and fax traffic into a single mailbox accessible over an Internet-based network independent of location, time or device. And, when calling in for customer support, they will be connected to the best available customer service representative regardless of physical location.

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. The Cisco 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 segment information for the Company, see Note 11, "Segment Information and Major Customers," on page 52 of the Company's 1999 Annual Report to Shareholders, which is incorporated by reference herein.

The Cisco market strategy addresses four main customer profiles:

Enterprise

Enterprise customers generally are large organizations with 500 or more employees 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, voice, and video communication services to businesses and consumers. They include national and international

regional and long distance telecommunications carriers, as well as Internet, cable, and wireless service providers.

Small/Medium-Sized Businesses

These customers have less than 500 employees and a need for networks of their own, as well as connection to the Internet and to business partners. However, these customers generally have limited expertise in networking technology; therefore, the Company attempts to provide products that are affordable and easy to install and use.

Consumers

Consumers have a need for networking devices and services to connect them to the Internet from within the home. In addition, some advanced consumers will network together a range of devices within their home, linking together such devices as PCs, TV, phone, fax, and more, into an integrated personal network. Internet access services are provided to them through regional carriers and Internet Service Providers (ISPs).

Cisco Sales Overview

The Company's worldwide direct sales organization at August 28, 1999 consisted of approximately 7,200 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 120 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. For additional information regarding the Company's international sales see Note 11, "Segment Information and Major Customers," on page 52 of the Company's 1999 Annual Report to Shareholders, which is incorporated by reference herein.

ACQUISITIONS, INVESTMENTS AND ALLIANCES

The end-to-end networking strategy pursued by Cisco requires a wide variety of technologies, products, and capabilities. 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, the 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 "Risk Factors" section of this report.

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, ATM switching, SONET/SDH, xDSL, dial, converged data, voice, and video technologies, call center and unified messaging solutions, network security, and network management software solutions, among others.

MINORITY INVESTMENTS

The Company makes minority investments in companies that build complementary technology to Cisco products, and by investing in new ventures Cisco strengthens its partnerships with such companies. Together, Cisco and its portfolio companies can offer more complete solutions to the market.

STRATEGIC ALLIANCES

Cisco pursues strategic alliances with other industry leaders in areas where collaboration can produce industry advancement and acceleration of new markets. The objectives and goals for a strategic alliance can include one or more of the following: technology exchange, product development, joint marketing and sales, and new-market creation. This year, Cisco expanded its relationships with Microsoft, Hewlett-Packard, Intel, and Sprint and created new alliances with KPMG, IBM, Telcordia, Motorola, and Portal Software. We also extended our business alliances with Fujitsu and Japan Telecom, while announcing strategic relationships with USWest and NTT, among others.

BACKLOG

The Company's backlog on September 20, 1999 was approximately \$922 million compared with an approximate backlog of \$693 million at September 19, 1998. 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 internet infrastructure 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 world 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 solutions will decrease, due to the rapid pace of acquisitions in the industry. The Company believes its primary competition will be from a few large suppliers of end-to-end solutions.

Cisco's competitors include Lucent, Nortel, Ericsson, 3Com, Cabletron, Alcatel and Juniper. 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:

- o price
- o performance
- o the ability to provide end-to-end solutions and support
- o conformance to standards
- o the ability to provide added value features such as security, reliability, and investment protection and
- o 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 continues to enhance and extend its product lines with new product and feature introductions including optical networking, data, voice, and video integration, Virtual Private Networking (VPN), Digital Subscriber Line (DSL), cable modem, gigabit switching, security, and network management, among others.

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 1999, 1998, and 1997, the Company's research and development expenditures were approximately \$1,594 million, \$1,026 million, and \$702 million, respectively. All of the Company's expenditures for research and development costs, as well as purchased in-process research and development of approximately \$471 million, \$594 million, and \$508 million in fiscal 1999, 1998, and 1997, respectively, 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.

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.

RISK FACTORS

Our business and the value of our 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 "Risk Factors" section on pages 27-32 of our Annual Report to Shareholders for the year ended July 31, 1999, which pages we incorporated herein by reference.

WE EXPECT TO MAKE FUTURE ACQUISITIONS WHERE ADVISABLE AND ACQUISITIONS INVOLVE NUMEROUS RISKS

The networking business is highly competitive, and as such, our growth is dependent upon market growth and our ability to enhance our existing products and introduce new products on a timely basis. One of the ways we have addressed and will continue to address the need to develop new products is through acquisitions of other companies.

Acquisitions involve numerous risks, including the following:

- o difficulties in integration of the operations, technologies, and products of the acquired companies;
- o the risk of diverting management's attention from normal daily operations of the business;
- o potential difficulties in completing projects associated with purchased in- process research and development;
- o risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions; and
- o the potential loss of key employees of the acquired company.

Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition.

We must also maintain our ability to manage any such growth effectively. Failure to manage growth effectively and successfully integrate acquisitions made by us could materially harm our business and operating results.

WE FACE RISKS FROM THE UNCERTAINTIES OF REGULATION OF THE INTERNET

There are currently few laws or regulations that apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation in any country where we operate, on such technology as 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 our products, and at the same time increase our cost of selling our products. Changes in laws or regulations governing the Internet and Internet commerce could have a material adverse effect on our business, operating results and financial condition.

THE ENTRANCE INTO NEW OR DEVELOPING MARKETS EXPOSES OUR BUSINESS AND OPERATIONS TO RISKS

As we focus on new market opportunities, such as transporting data, voice, and video traffic across the same network, we will increasingly compete with large telecommunications equipment suppliers such as Lucent, Ericsson and Nortel, among others, and several well-funded start-up companies. Several of our current and potential competitors have greater financial, marketing and technical resources than we do. Additionally, as customers in these markets complete infrastructure deployments, they may require greater levels of service, support and financing than we have experienced in the past. We have not entered into a material amount of labor intensive service contracts which require significant production or customization. However, we expect that demand for these types of service contracts will increase in the future. There can be no assurance that we can provide products, service, support and financing to effectively compete for these market opportunities. Further, provision of greater levels of

services by us may result in less favorable timing of revenue recognition than we have historically experienced.

WE ARE DEPENDENT UPON THE ABILITY OF SUPPLIERS TO DELIVER PARTS ON TIME

Our growth and ability to meet customer demands also depend in part on our ability to obtain timely deliveries of parts from our suppliers. We have experienced component shortages in the past that have adversely affected our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future.

THE LOCATION OF OUR FACILITIES SUBJECTS US TO THE RISK OF EARTHQUAKES AND FLOODS

Our corporate headquarters, including most of our research and development operations and our manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, one of our 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 our business, financial condition and operating results.

WE DEPEND UPON THE DEVELOPMENT OF NEW PRODUCTS AND ARE SUBJECT TO RAPID CHANGES IN TECHNOLOGY AND THE MARKET

Our operating results will depend to a significant extent on our ability to reduce the costs to produce existing products. In particular, we broadened our product line by introducing network access products. Sales of these products, which are generally lower priced and carry lower margins than our core products, have increased more rapidly than sales of our 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 our competitors and market acceptance of these products. The markets for our 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 we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, and achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH STRATEGIC ALLIANCES

We have a number of strategic alliances with companies including Microsoft, Hewlett-Packard, EDS, Sprint and Motorola, 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, we must compete in some business areas with a company with which we have

strategic alliances and, at the same time, cooperate with such company in other business areas. Also, if these companies fail to perform, or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties.

THE INDUSTRY IN WHICH WE COMPETE IS SUBJECT TO CONSOLIDATION

There has been a trend toward industry consolidation for several years, which has continued during fiscal 1999. We expect this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry. We believe 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 we compete to be a single vendor solution and could have a material adverse effect on our business, operating results and financial condition.

SALES IN THE SERVICE PROVIDER MARKET ARE SUBJECT TO VARIATION

Although sales to the service provider market have grown historically, 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 our business, operating results and financial condition.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH THE MANUFACTURE OF PARTS AND COMPONENTS OF OUR PRODUCTS

Although we generally use standard parts and components for our 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 our business, operating results and financial condition and could materially damage customer relationships.

WE FACE RISKS ASSOCIATED WITH CHANGES IN TELECOMMUNICATION REGULATION AND TARIFFS

Changes in domestic and international telecommunication requirements could affect the sales of our products. In particular, we believe it is possible that there may be significant changes in domestic telecommunications regulation in the near future that could slow the expansion of the service providers' network infrastructures and materially adversely affect our business, operating results and financial condition. Future changes in tariffs by regulatory agencies or application of tariff requirements to currently untariffed services could affect the sales of our products for certain classes of customers. Additionally, in the U.S. our products must comply with various Federal Communication Commission requirements and regulations. In countries outside of the U.S., our products must meet

various requirements of local telecommunications authorities. Changes in tariffs, or failure by us to obtain timely approval of products could have a material adverse effect on our business, operating results and financial condition.

OUR BUSINESS IS SUBJECT TO RISKS FROM INTERNATIONAL OPERATIONS

We conduct business globally. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including among others foreign currency exchange rates; regulatory, political or economic conditions in a specific country or region; trade protection measures and other regulatory requirements among other factors; government spending patterns; and natural disasters. In fiscal 1999, the sales growth rate in Japan, as well as in certain other parts of Asia continued to be slower than that in other areas. Any or all of these factors could have a material adverse impact on our future international business in these or other countries.

OUR BUSINESS SUBSTANTIALLY DEPENDS UPON THE CONTINUED GROWTH OF THE INTERNET AND INTERNET-BASED SYSTEMS

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

OUR STOCK PRICE MAY BE VOLATILE

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

EMPLOYEES

As of July 31, 1999, we employed approximately 21,000 persons, including 3,900 in manufacturing, service and support, 8,600 in sales and marketing, 7,000 in engineering, and 1,500 in finance and administration. Approximately 4,400 employees were in international locations.

None of the employees are represented by a labor union, and we

consider our relations with our employees to be positive. We have experienced no work stoppages.

Competition for technical personnel in our industry is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

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 29 buildings located at these sites, one of which is a manufacturing facility. The San Jose headquarters consist of approximately 3.8 million square feet of leased office space at the present time. The Company expects that construction at its current sites will continue through 2000, with the potential to add approximately 1.2 million square feet of leased office space. Additionally, two new sites have recently been leased near its present corporate offices in San Jose, California. The Company has certain other operating leases for buildings, including those assumed as part of the StrataCom acquisition. These buildings, which include additional manufacturing facilities, are located at various sites near San Jose, California and consist of approximately 1 million square feet of leased space.

In addition to the California facilities, the Company leases approximately 45 acres of land in Research Triangle Park, North Carolina, where the InterWorks Business Division, as well as a Technical Assistance Center, telesales, and various other support functions, are located. There are six 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 45 of the Company's 1999 Annual Report to Shareholders, which is hereby incorporated by reference.

ITEM 3. LEGAL PROCEEDINGS

None.

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	56	<p>Senior Vice President, Finance and Administration, Chief Financial Officer, and Secretary</p> <p>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. Mr. Carter currently serves on the board of directors of Network Appliances, Inc., Ultratech Stepper, Inc. and Qlogic, Inc.</p>	1997
John T. Chambers	50	<p>President, Chief Executive Officer and Director</p> <p>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.</p>	1995
Gary Daichendt	49	<p>Executive Vice President, Worldwide Operations</p> <p>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.</p>	1998
Judith Estrin	44	<p>Senior Vice President, Business Development, Chief Technology Officer</p> <p>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.</p>	1998

NAME	AGE	POSITION	POSITION HELD SINCE
Charles H. Giancarlo	41	Senior Vice President, Small/Medium Business Line of Business ----- Mr. Giancarlo joined the Company in December 1994 as Director of Business Development. He was promoted to Vice President in September 1995. He was Vice President, of Global Alliances from April 1997 to April 1999 and promoted to Senior Vice President in April 1998. In April 1999, he was promoted to his present position of Senior Vice President, Small/Medium Line of Business. Prior to Cisco, he was Vice President of Marketing with Kalpana Corporation from July 1993. Kalpana was acquired by Cisco in December 1994.	1999
Edward R. Kozel	44	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 and Tibco Software, Inc.	1998
Donald J. Listwin	40	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, E-Tek Dynamics, Inc. and Tibco Software, Inc.	1998
Mario Mazzola	52	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 Vice President 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

NAME	AGE	POSITION	POSITION HELD SINCE
Carl Redfield	52	Senior Vice President, Manufacturing and Logistics	1997

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.

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 55 of the Company's 1999 Annual Report to Shareholders.

(b) During the quarter ended July 31, 1999, the Company issued an aggregate of 2,017,180 shares of its Common Stock in connection with the purchase of the capital stock of Amteva Technologies, Inc. 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 21 of the Company's 1999 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 22-32 of the Company's 1999 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 28-29 of the Company's 1999 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 33-55 of the Company's 1999 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 27, 1999, 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 27, 1999, 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 27, 1999, 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 27, 1999, 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 24.

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 24.

3. Exhibits

The exhibits listed in the accompanying Index to Exhibits on pages 28-30 are filed or incorporated by reference as part of this annual report.

(b) Reports on Form 8-K

The Company filed two reports on Form 8-K during the fourth quarter ended July 31, 1999. Information regarding the items reported on is as follows:

Date ----	Item Reported On -----
May 14, 1999	The Company announced a two-for-one stock split effective for shareholders of record as of May 24, 1999
July 2, 1999	The June 1999 acquisition of GeoTel

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, 1999. 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, 1999
----- <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, 1999
----- <i>/s/ John P. Morgridge</i> ----- John P. Morgridge	Chairman of the Board and Director	September 23, 1999
----- <i>/s/ Donald T. Valentine</i> ----- Donald T. Valentine	Vice Chairman of the Board and Director	September 23, 1999
----- <i>/s/ Carol A. Bartz</i> ----- Carol A. Bartz	Director	September 23, 1999
----- Mary Cirillo	Director	
----- <i>/s/ James F. Gibbons</i> ----- Dr. James F. Gibbons	Director	September 23, 1999
----- <i>/s/ Edward R. Kozel</i> ----- Edward R. Kozel	Senior Vice President, Corporate Development and Director	September 23, 1999

Signature	Title	Date
----- /s/ James C. Morgan ----- James C. Morgan	----- Director	----- September 23, 1999
----- /s/ Robert L. Puette ----- Robert L. Puette	Director	September 23, 1999
----- /s/ Arun Sarin ----- Arun Sarin	Director	September 23, 1999
----- Masayoshi Son	Director	
----- /s/ Steven M. West ----- Steven M. West	Director	September 23, 1999

CISCO SYSTEMS, INC.

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

ITEM 14(A)

	Page	

	Form 10-K	1999 Annual Report to Shareholders
Data incorporated by reference from the 1999 Annual Report to Shareholders of Cisco Systems, Inc.:		
Consolidated statements of operations for each of the three years in the period ended July 31, 1999		33
Consolidated balance sheets at July 31, 1999 and July 25, 1998		34
Consolidated statements of cash flows for each of the three years in the period ended July 31, 1999		35
Consolidated statements of shareholders' equity for each of the three years in the period ended July 31, 1999.....		36
Notes to consolidated financial statements.....		37-53
Report of Independent Accountants.....		54
Supplementary financial data: Fiscal years 1999 and 1998 by quarter (unaudited)		55
Data submitted herewith:		
Financial Statement Schedule:		
Report of Independent Accountants.....	26	
II Valuation and qualifying accounts.....	27	

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 1999 Annual Report to Shareholders is not to be deemed "filed" as part of this report.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
Cisco Systems, Inc.

Our audits of the consolidated financial statements referred to in our report dated August 10, 1999 appearing in the 1999 Annual Report to Shareholders of Cisco Systems, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

*San Jose, California
August 10, 1999*

CISCO SYSTEMS, INC.

**SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in millions)**

	Balance at Beginning of Period -----	Charged to Expenses -----	Deductions -----	Balance at End of Period -----
Year ended July 26, 1997:				
Allowance for doubtful accounts	\$ 21	\$ 13	\$ 12	\$ 22
Allowance for excess and obsolete inventory	62	123	104 (1)	81
Year ended July 25, 1998:				
Allowance for doubtful accounts	22	43	25	40
Allowance for excess and obsolete inventory	81	161	98 (1)	144
Year ended July 31, 1999:				
Allowance for doubtful accounts	40	19	32	27
Allowance for excess and obsolete inventory	144	151	144 (1)	151

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

INDEX TO EXHIBITS

(Item 14 (a))

Exhibit Number -----	Exhibit Description -----
3.1.1	Restated Articles of Incorporation (1)
3.1.2	Amendment to the Cisco Systems, Inc. Restated Articles of Incorporation, as currently in effect (filed herewith)
3.2	Cisco Systems, Inc. Amended and Restated Bylaws, as currently in effect(1)
10.1	Rights Agreement dated as of June 10, 1998 between Cisco Systems, Inc. and Bank Boston, N.A. (2)
10.2*	Cisco Systems, Inc. 1996 Stock Incentive Plan (filed herewith)
10.3*	1997 Supplemental Stock Incentive Plan (including the following: Stock Option Agreement in connection with the 1997 Supplemental Stock Incentive Plan) (1)
10.12*	Senior Management Incentive Plan-Fiscal Year 2000 (filed herewith)
10.13*	Cisco Systems, Inc. 1989 Employee Stock Purchase Plan (4)
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. (1)
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)
10.27	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)
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)

Exhibit Number -----	Exhibit Description -----
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)
10.46	Second Amendment to Lease between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated February 24, 1998, for the Company's site in San Jose, California. (filed herewith)
10.47	First Amendment to the Lease between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated July 10, 1999. (filed herewith)
10.48	Second Amendment to Ground Lease (North Carolina) between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated July 10, 1999. (filed herewith)
10.52	Master Lease between the Company, as the Lessee, and UBS MORTGAGE FINANCE INC. as the Lessor, dated December 27, 1996 (4)

Exhibit Number -----	Exhibit Description -----
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 (4)
10.54	Second Amendment to Lease between Cisco Systems, Inc. and Sumitomo Bank Leasing and Finance, Inc., dated February 24, 1998 (1)
10.55	Third Amendment to Lease between SGA Development Partnership, LTD. and Cisco Systems, Inc., dated February 24, 1998 (1)
13.01	Pages 21 through 55 of the Registrant's 1999 Annual Report to Shareholders
21.01	Subsidiaries of the Company
23.02	Consent of Independent Accountants
27	Financial Data Schedule

(1) Incorporated by reference to the exhibits with the corresponding exhibit numbers in the Company's Annual Report on Form 10-K for the fiscal year ended July 25, 1998.

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

(3) 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 30, 1995.

(4) 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 3.1.2

**CERTIFICATE OF AMENDMENT
OF THE RESTATED ARTICLES OF INCORPORATION OF
CISCO SYSTEMS, INC.
a California Corporation**

The undersigned, John T. Chambers and David Rogan, hereby certify that:

ONE: They are the duly elected and acting President and Assistant 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 Five Billion Four Hundred and Five Million (5,405,000,000) shares. Five Billion Four Hundred Million (5,400,000,000) shares shall be Common Stock, par value of \$0.001, and Five Million (5,000,000) shares shall be Preferred Stock.

As of June 21, 1999, every one (1) share of Common Stock outstanding is split into two (2) 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 June __, 1999.

John T. Chambers President

David A. Rogan Assistant 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 June __, 1999

John T. Chambers

David A. Rogan

EXHIBIT 10.2

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

AS AMENDED AND RESTATED EFFECTIVE JULY 8, 1999

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.

All share numbers in this July 8, 1999 restatement reflect all splits of the Common Stock effected through June 21, 1999, including (i) the three (3)-for-two (2) split of Common Stock effected on December 16, 1997, (ii) the three (3)-for-two (2) split of Common Stock effected on September 15, 1998 and (iii) the two (2)-for-one (1) split of Common Stock effected on June 21, 1999.

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.

2.

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 745,113,564 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 (309,762,450), plus the number of shares added to the reserve in the automatic share increases that occurred in December 1996, December 1997 and December 1998 (435,351,114 shares).

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 240,000,000 shares.

C. No one person participating in the Plan may receive stock options or separately exercisable stock appreciation rights for more than 9,000,000 shares of Common Stock in the aggregate per calendar year.

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 maximum 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 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 inheritance following the Optionee's death. However, a Non-Statutory Option may 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 or to one or more individuals, to the extent such assignment is in connection with the Optionee's estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

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 exercisable for all of the 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 expiration or sooner termination of the option term. 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 expiration or sooner termination of the option term. 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

The following terms and provisions reflect the amendment to the Automatic Option Grant Program authorized by the Board on July 8, 1999, subject to shareholder approval at the 1999 Annual Meeting. Accordingly, such terms and provisions shall only become effective upon such shareholder approval, and if such shareholder approval is not obtained, the terms and provisions of the Automatic Option Grant Program as in effect immediately prior to the July 8, 1999 amendment shall automatically be reinstated.

I. OPTION TERMS

A. GRANT DATES. Option grants under this Article Three shall be made 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 1999 Annual Shareholders Meeting shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase 30,000 shares of Common Stock(1), 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 1999 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 15,000 shares of Common Stock(2), 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 30,000-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.

(1) Prior to this July 8, 1999 restatement, the number of shares of Common Stock for which an initial option grant was to be made to each newly elected or appointed non-employee Board member was set at 20,000 shares.

(2) Prior to this July 8, 1999 restatement, the number of shares of Common Stock for which a continuing non-employee Board member was to be granted an option at each annual shareholders meeting at which he or she was re-elected to the Board was set at 10,000 shares.

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 30,000-share grant shall vest, and the Corporation's repurchase right with respect to those shares 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 15,000-share grant shall vest, and the Corporation's repurchase right with respect to those shares 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 the laws of inheritance) 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 exercisable for all of the 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. 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 exercisable for all of the 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. 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. Shareholder approval of this July 8, 1999 restatement shall also constitute pre-approval of each option grant with such a cash surrender right made under the Automatic Option Grant Program on or after the date of the 1999 Annual Meeting and the subsequent exercise of that right 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 Withholding Taxes to which such holders may become subject 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 Withholding 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 Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Withholding 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 and approved by the Shareholders at the 1998 Annual Shareholders Meeting, 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. The Automatic Option Grant Program in effect under the Plan was amended by the Board on July 8, 1999 in order to increase the number of shares of Common Stock for

which newly elected or appointed non-employee Board members and continuing non-employee Board members may be granted stock options under such program. Such amendment, however, is subject to shareholder approval at the 1999 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 Article Three of 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 Article Two of 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. 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. 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).

GG. WITHHOLDING TAXES shall mean the Federal, state and local income and employment withholding taxes to which the holder of Non-Statutory Options or unvested shares of Common Stock may become subject in connection with the exercise of those options or the vesting of those shares.

A-5.

**EXHIBIT 10.12
CISCO SYSTEMS, INC.**

**WORLDWIDE
SENIOR MANAGEMENT INCENTIVE PLAN
EVP, SR VP, VP, DIRECTOR
FY 2000**

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 2000 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 2000.

C. EFFECTIVE DATE: The Plan is effective for the Fiscal Year 2000, beginning August 1, 1999 through July 29, 2000.

D. CHANGES IN PLAN: The Company presently has no plans 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 2000 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 given corrective feedback, on a 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. When the Revenue and PBIT percentages of goal fall between the stated percentages on the matrix, the Company Performance Multiplier will be determined using a straight-line interpolation approach. The applicable targets for Fiscal Year 2000 are approved by the Cisco Board of Directors within the first 90 days of the fiscal year.

		COMPANY PERFORMANCE MULTIPLIER -----				
		120%	110%	100%	90%	80%
REVENUE AS A % OF GOAL	120%	0.90	1.10	1.30	1.90	2.00
	110%	0.85	1.00	1.10	1.60	1.90
	100%	0.80	0.90	1.00	1.30	1.60
	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
< 4.20	0.95
4.20 - 4.25	1.05
4.26 - 4.30	1.10
4.31+	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 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 \$195,000 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
-----		-----		-----		-----		-----		-----		-----		-----
\$195,000	x	0.40	x	1.10	x	1.30	x	1.05	x	1.10	x	1.00	=	\$128,829

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, reduced by any advances, unearned commission 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 2000 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 (midyear 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.

Employees who are given corrective feedback, on a 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 payout or year-end payout 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 after the company's collection of all 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. Employees who transfer into the plan from another plan will be subject to proration as well. Payments from the plan are subject to reduction by advances, unearned commission advances, draws or prorations and appropriate state and federal withholdings. 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 year-end bonus. A participant must be employed on the day of distribution 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 2000 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 10.46

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 to 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

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"

Legal Description of Premises

[to be attached]

EXHIBIT 10.47

FIRST AMENDMENT TO LEASE

(NORTH CAROLINA)

THIS FIRST AMENDMENT TO LEASE ("First Amendment") is made and entered into effective as of July 10, 1999, 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 August 12, 1994 (the "Lease"), pursuant to which Landlord leased to Tenant those certain buildings to be constructed on land located in Wake County, North Carolina, 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 First Amendment which are defined in the Lease shall have the meaning ascribed in the Lease.

B. Landlord and Tenant now desire to amend the terms of the Lease, as more particularly described in this First Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereby agree as follows:

1. Term. Pursuant to Section 4.2 of the Lease, the Initial Term of the Lease set forth in Section 1.6 of the Lease is hereby extended for an additional period and shall expire on May 20, 2005. Landlord agrees that all of the Extension Conditions set forth in Section 4.2 of the Lease have either been waived by Landlord or satisfied by Tenant, provided that Tenant must comply with all of the terms and conditions set forth in that certain Indicative Proposal executed by Landlord and Tenant dated April 16, 1999 as a condition to Landlord's agreement to enter into this First Amendment.

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:

"Sumitomo Bank Leasing and Finance, Inc. 277 Park Avenue
New York, NY 10172
Attn: Chief Credit Officer

with a copy to:

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: Director of Real Estate Worldwide

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: Scott Biel, Esq."

3. Address for Rent Payments. The addresses for payments of Base Rent (Equity Rent Component and Senior Rent Component) set forth in Section 1.10 of the Lease are 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. The following defined term is hereby added to Article 2 of the Lease:

"2.58 Security Deposit. "Security Deposit" shall have the meaning set forth in Section 5.8."

The following defined terms are hereby revised as set forth below:

Equity Rent Component. The percentage of "0.75%" set forth in Section 2.18 of the Lease is hereby amended to "one percent (1.0%)".

Lease Rate. The following is hereby inserted as the third sentence of Section 2.29:

"Commencing with the payment of Base Rent due on August 1, 1999 and thereafter for each successive payment of Base Rent due during the Term of the Lease, the term "Lease Rate" shall be amended to mean that annual amount equal to one month LIBOR plus the product of the then existing Equity Funded Amount multiplied by the LIBOR Rate plus 100 basis points."

LIBOR Business Day. The term "LIBOR Business Day" set forth in Section 2.31 of the Lease is hereby deleted and replaced with the term "Euro-Dollar business day" which shall mean a day on which dealings between banks are carried on in U.S. dollar deposits in London, England, and New York, New York.

LIBOR Rate. The definition of the term "LIBOR Rate" set forth in Section 2.32 of the Lease is hereby deleted and replaced with the following:

"LIBOR Rate" shall mean the annualized rate equal to the mid-morning average of the approximate one (1) month LIBOR rates published by Reuters Monitoring Systems (rounded upwards to the next higher 1/100th of one percent (1%) if such rate is not a multiple of 1/100), for an amount equal to the entire then outstanding Senior Funded Amount, and appearing on the day that is two (2) Euro-Dollar business days preceding each Rent Payment Date. In the event the Reuters quote is not available, the British Banker's Association's Interest Settlement Rate shall be used."

Nominal Rate and Senior Rent Component. The term "Nominal Rate" set forth in Section 2.37 of the Lease is hereby deleted and replaced with the LIBOR Rate, as defined herein.

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 July 12, 1999, Tenant shall deliver to Landlord a security deposit payment (the "Security Deposit") in an amount equal to the Senior Funded Amount under the Lease which is _____ Dollars (\$_____). 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 set forth in subparagraph (a) above, 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 5.6(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. The UBS Loan and Payments of Base Rent.

(i) The following subparagraph is hereby added to Section 5.1 of the Lease:

"(c) Commencing with the payment of Base Rent due on August 1, 1999, Tenant shall pay Base Rent (the Equity Rent Component and the Senior Rent Component) to Landlord pursuant to the wire transfer instructions on the invoices provided by Landlord, or at such other place as Landlord and Tenant may from time to time mutually agree upon, in their respective sole and absolute discretion. Tenant shall pay Base Rent by wire transfer. Landlord shall supply Tenant with such bank account information as Tenant shall require to enable payment by wire transfer."

(ii) Landlord and Tenant hereby agree that as of July 12, 1999, the UBS Loan and UBS Note will be paid in full and all of the documents evidencing and securing the UBS Note and UBS Loan will be terminated and of no further force and effect. Effective on July ____, 1999, all references to and provisions regarding UBS, the UBS Loan, UBS Note, New Loan, the Loan Rate, the Authorized Loan and the Replacement Loan in the Lease shall be inapplicable to the Lease and of no further force and effect.

7. Liability Insurance. Section 7.1 of the Lease is hereby amended by deleting the second sentence of such section and substituting the following:

"The Liability insurance policy shall contain coverage limits no less than the following: (a) Two Million Dollars (\$2,000,000.00) per person; and (b) One Million Dollars (\$1,000,000.00) for property damage."

7. All-Risk Insurance. Section 7.3 is hereby amended by deleting clause (b) and replacing it 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.

(i) Section 17.2(d) of the Lease 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.

(ii) Section 17 of the Lease is hereby modified to add the following new subparagraph as an Event of Major Default:

"(k) Invalidity of Lease Documents. Tenant shall directly or indirectly contest the validity of the Lease or any document executed by Tenant in connection with the Lease in any court of competent jurisdiction or the validity of any lien in favor of Landlord created by any such documents."

(iii) 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 or Deliver Security Deposit. Tenant's failure to replenish the collateral account as required 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."

(iv) Section 17.2(g) is hereby deleted and replaced with the following:

"A payment default (after applicable notice and cure periods) under any credit facility of Tenant which equals or exceed Fifty Million Dollars (\$50,000,000.00)."

(v) 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, in which case 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 1998."

11. Landlord's Default. The following Section 17.9 shall be added to the Lease:

"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, Tenant shall have the right to exercise its Purchase Option pursuant to Section 19.1 hereof."

12. Option to Purchase Premises. Notwithstanding the provisions of Section 19.1 of the Lease, in the event Tenant subdivides the Premises into legally separate parcels or lots, Tenant may, subject to the condition set forth in the following sentence, exercise its Purchase Option with respect to any or all of such separate parcels or lots. Landlord shall have the right to reject Tenant's exercise of its Purchase Option with respect to less than all of such parcels or lots, if Landlord determines in its reasonable judgment that the value of the portion of the Premises remaining after the sale of such lot(s) or parcel(s) will be adversely affected by such sale. Tenant shall provide to Landlord at Tenant's sole cost and expense such documents and information reasonably required by Landlord in order for Landlord to determine the value of the remaining portion of the Premises, including without limitation, an appraisal of the remaining portion of the Premises prepared by an appraiser approved by Landlord. In the event Tenant properly exercises its Purchase Option with respect to less than all of the Premises, the Purchase Price shall be the portion of the Funded Amount reasonably allocated by Landlord to the portion of the Premises being purchased under the Purchase Option, plus the amount of any reasonable and customary fees, costs and expenses of Landlord associates with the sale, break funding costs, if any, plus any then due and delinquent Base Rent and Additional Rent, if any, under the Lease and the sale shall be consummate pursuant to the terms of Section 19.1 of the Lease. Upon Tenant's delivery to Landlord of the entire Purchase Price upon the exercise of the option to purchase a portion of the Premises, the Security Deposit and the Senior Funded Amount under this Lease shall mean that amount set forth in Section 5.8 hereof less that portion of the Purchase Price allocated to the portion of the Premises being purchased under the Purchase Option properly allocated by Landlord to the Senior funded Amount.

Notwithstanding the provisions of the foregoing paragraph, upon the expiration of the Term, Tenant shall be obligated to exercise its Purchase Option with respect to all of the then remaining Premises.

13. 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."

14. Additional Covenants of Landlord. The following Sections 20.4 and 20.5 shall be deleted and the following substitution in place thereof:

"20.6 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.

15. 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."

16. 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"

17. Tenant Deed of Trust. Concurrently with the effective date of this First Amendment, Landlord shall execute, acknowledge and cause to be recorded in the register of deeds a deed of trust in form acceptable to Tenant ("Tenant Deed of Trust"), which Tenant Deed of Trust shall secure Landlord's obligations under the Lease (i) to return the Security Deposit pursuant to the terms of the Lease and (ii) 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 SBLF Deed of Trust.

18. Change in Ownership; Landlord's Termination Option

In the event any person or Entity unrelated to Tenant obtains more than 49% of the voting control of Tenant, Tenant shall immediately notify Landlord of such event and Landlord shall have the option upon thirty (30) days prior written notice to Tenant, delivered within thirty (30) days following Landlord's receipt of written notice from Tenant of such event, to terminate this Lease. If Landlord exercises its right to terminate the Lease pursuant to this paragraph, Tenant shall fully exercise the Purchase Option with respect to the entire then existing Premises no later than the date which is thirty (30) days following the date Tenant receives the termination option exercise notice from Landlord.

19. Representations and Warranties.

Tenant hereby reaffirms each and every representation and warranty of Tenant made under Section 21.22 of the Lease.

20. Counterparts. This First 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.

21. 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 First 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"

Legal Description of Premises

[to be attached]

EXHIBIT 10.48

SECOND AMENDMENT TO GROUND LEASE

(NORTH CAROLINA)

THIS SECOND AMENDMENT TO GROUND LEASE ("Second Amendment") is made and entered into effective as of July 10, 1999, 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 Ground Lease dated July 11, 1994, which was amended on August 12, 1994 (collectively, the "Lease"), pursuant to which Landlord leased to Tenant certain land located in Wake County, North Carolina, 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 to 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. Pursuant to Section 4.2 of the Lease, the Initial Term of the Lease set forth in Section 1.6 of the Lease is hereby extended and shall expire on May 20, 2005. Landlord agrees that all of the Extension Conditions set forth in Section 4.2 of the Lease have either been waived by Landlord or satisfied by Tenant, provided that Tenant must comply with all of the terms and conditions set forth in that certain Indicative Proposal executed by Landlord and Tenant dated April 16, 1999 as a condition to Landlord's agreement to enter into this Second Amendment.

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:

"Sumitomo Bank Leasing and Finance, Inc. 277 Park Avenue
New York, NY 10172
Attn: Chief Credit Officer

with a copy to:

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: Director of Real Estate, Worldwide

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: Scott Biel, Esq."

3. Address for Rent Payments. The address for payments of Base Rent 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. The following defined terms are hereby added to Article 2 of the Lease:

"2.38 LIBOR Rate. "LIBOR Rate" shall mean the annualized rate equal to the mid-morning average of the approximate one (1) month LIBOR rates published by Reuters Monitoring Systems (rounded upwards to the next higher 1/100th of one percent (1%) if such rate is not a multiple of 1/100), for an amount equal to the entire then outstanding Funded Amount, and on the day that is two (2) Euro-Dollar business days preceding each Rent Payment Date. In the event the Reuters quote is not available, the British Banker's Association's Interest Settlement Rate shall be used."

"2.39 Security Deposit. "Security Deposit" shall have the meaning set forth in Section 5.6."

The following defined terms are hereby revised as set forth below:

Base Rent. The following is hereby inserted at the end of Section 2.5:

"Commencing with the payment of Base Rent due on August 1, 1999, "Base Rent" shall mean, as of any Rent Payment Date thereafter, the product of the Funded Amount multiplied by the Lease Rate."

Funded Amount. The following is hereby inserted at the end of Section 2.11:

"Commencing on July 12, 1999, "Funded Amount" shall mean from time to time during the Term of the Lease, the amount of the then outstanding Security Deposit (excluding any interest thereon due to Tenant), less any reductions in the Security Deposit made pursuant to the terms of the Lease."

Lease Rate. The following is hereby inserted as the third sentence of Section 2.16:

"Commencing with the payment of Base Rent due on August 1, 1999 and thereafter for each successive payment of Base Rent due during the Term of the Lease, the term "Lease Rate" shall be amended to mean that annual amount equal to one month LIBOR plus the product of the then existing balance of the Security Deposit (excluding any interest thereon due to Tenant) multiplied by the LIBOR Rate, which amount is then prorated for the rental period in question on a 30/360 basis."

5. Security Deposit. Article 5 of the Lease is hereby amended to add the following Section 5.6:

"5.6 Security Deposit.

(a) On or before 12:00 p.m. New York time on July 12, 1999, Tenant shall deliver to Landlord a security deposit payment (the "Security Deposit") in an amount equal to the Funded Amount under the Lease which is Three Million Four Hundred Seventeen Thousand One Hundred and 29/100 Dollars (\$3,417,100.29) as such amount may be reduced from time to time pursuant to Tenant's exercise of the Purchase Option in accordance with Section 12 of this Second Amendment to Lease. 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 set forth in subparagraph (a) above, 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 5.6(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. The UBS Loan and Payments of Base Rent.

(i) The following subparagraph is hereby added to Section 5.1 of the Lease:

"(c) Commencing with the payment of Base Rent due on August 1, 1999, Tenant shall pay Base Rent to Landlord pursuant to the wire transfer instructions on the invoices provided by Landlord, or at such other place as Landlord and Tenant may from time to time mutually agree upon, in their respective sole and

absolute discretion. Tenant shall pay Base Rent by wire transfer. Landlord shall supply Tenant with such bank account information as Tenant shall require to enable payment by wire transfer."

(ii) Landlord and Tenant hereby agree that as of July 12, 1999, the UBS Loan and UBS Note will be paid in full and all of the documents evidencing and securing the UBS Note and UBS Loan will be terminated and of no further force and effect. Effective on July ____, 1999, all references to and provisions regarding UBS, the UBS Loan, UBS Note, New Loan, the Loan Rate, the Authorized Loan and the Replacement Loan in the Lease shall be inapplicable to the Lease and of no further force and effect.

7. Liability Insurance. Section 7.1 of the Lease is hereby amended by deleting the second sentence of such section and substituting the following:

"The liability insurance policy shall contain coverage limits no less than the following: (a) Two Million Dollars (\$2,000,000.00) per person; and (b) One Million Dollars (\$1,000,000.00) for property damage."

8. Self Insurance. Article 7 is further amended by adding the following 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; (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.

(i) Section 17.2(d) of the Lease 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 7.4 above.

(ii) Section 17 of the Lease is hereby modified to add the following new subparagraph as an Event of Major Default:

"(j) Invalidity of Lease Documents. Tenant shall directly or indirectly contest the validity of the Lease or any document executed by Tenant in connection with the Lease in any court of competent jurisdiction or the validity of any lien in favor of Landlord created by any such documents."

(iii) 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 or Deliver Security Deposit. Tenant's failure to replenish the collateral account as required 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."

(iv) Section 17.2(g) is hereby deleted and replaced with the following:

"A payment default (after applicable notice and cure periods) under any credit facility of Tenant which equals or exceed Fifty Million Dollars (\$50,000,000.00)."

(v) 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, in which case 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 1998."

11. Landlord's Default. The following Section 17.9 shall be added to the Lease:

"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."

12. Option to Purchase Premises. Notwithstanding the provisions of Section 19.1 of the Lease, in the event Tenant subdivides the Premises into legally separate parcels or lots, Tenant may, subject to the condition set forth in the following sentence, exercise its Purchase Option with respect to any or all such separate parcels or lots. Landlord shall have the right to reject Tenant's exercise of its Purchase Option with respect to less than all of such parcels or lots, if Landlord determines in its reasonable judgment that the value of the portion of the Premises remaining after the sale of such lot(s) or parcel(s) will be adversely affected by such sale. Tenant shall provide to Landlord at Tenant's sole cost and expense such documents and information reasonably required by Landlord in order for Landlord to determine the value of the remaining portion of the Premises, including without limitation, an appraisal of the remaining portion of the Premises prepared by an appraiser approved by Landlord. In the event Tenant properly exercises its Purchase Option with respect to less than all of the Premises, the Purchase Price shall be the portion of the Funded Amount reasonably allocated by Landlord to the portion of the Premises being purchased under the Purchase Option, plus the amount of any reasonable and customary fees, costs and expenses of Landlord associates with the sale, break funding costs, if any, plus any then due and delinquent Base Rent and Additional Rent, if any, under the Lease and the sale shall be consummated pursuant to the terms of Section 19.1 of the Lease. Upon Tenant's delivery to Lender of the entire Purchase Price upon the exercise of the option to purchase a portion of the Premises, the Security Deposit and the Funded Amount shall mean that amount set forth in Section 5.6 hereof less that portion of the Funded Amount allocated by Landlord to the portion of the Premises being purchased under the Purchase Option.

Notwithstanding the provisions of the foregoing paragraph, upon the expiration of the Term, Tenant shall be obligated to exercise its Purchase Option with respect to all of the then remaining Premises.

13. 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 Funded Amount 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."

14. 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.

15. 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."

16. Financial Reporting. Article 21 of the Lease is hereby amended to add the following Section 21.23.

"21.23 Financial Reporting. Tenant shall provide to Landlord: (i) annually, within one hundred (100) days after the end of each of Tenant's fiscal years during the Term, an annual report on Form 10-K for such fiscal years as filed with the Securities and Exchange Commission; (ii) quarterly, within fifty (50) days after the end of each of Tenant's first three (3) fiscal quarters of each fiscal year during the Term, quarterly reports on Form 10-Q as filed with the Securities and Exchange Commission; and (iii) within thirty (30) days after filing with the Securities and Exchange Commission, any other reports, proxy statements, registration statements or prospectuses filed during the Term with the Securities and Exchange Commission."

17. Tenant Deed of Trust. Concurrently with the effective date of this Second Amendment, Landlord shall execute, acknowledge and cause to be recorded in the register of deeds a deed of trust in form acceptable to Tenant ("Tenant Deed of Trust"), which Tenant Deed of Trust shall secure Landlord's obligations under the Lease (i) to return the Security Deposit pursuant to the terms of the Lease and (ii) 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 SBLF Deed of Trust.

18. Change in Ownership; Landlord's Termination Option

In the event any person or Entity unrelated to Tenant obtains more than 49% of the voting control of Tenant, Tenant shall immediately notify Landlord of such event and Landlord shall have the option upon thirty (30) days prior written notice to Tenant, delivered within thirty (30) days following Landlord's receipt of written notice from Tenant of such event, to terminate this Lease. If Landlord exercises its right to terminate the Lease pursuant to this paragraph, Tenant shall fully exercise the Purchase Option with respect to the entire then existing Premises no later than the date which is thirty (30) days following the date Tenant receives the termination option exercise notice from Landlord.

19. Representations and Warranties.

Tenant hereby reaffirms each and every representation and warranty of Tenant made under Section 21.22 of the Lease.

20. 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.

21. 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"

Legal Description of Premises

[to be attached]

EXHIBIT 13.01**Selected Financial Data(1)**

Five Years Ended July 31, 1999 (in millions, except per-share amounts)

	1999	1998	1997	1996	1995
Net sales	\$12,154	\$ 8,488	\$ 6,452	\$ 4,101	\$ 2,232
Net income	\$ 2,096(2)	\$ 1,355(3)	\$ 1,051(4)	\$ 915	\$ 452(5)
Net income per common share--basic	\$ 0.65	\$ 0.44	\$ 0.35	\$ 0.32	\$ 0.17
Net income per common share--diluted	\$ 0.62(2)	\$ 0.42(3)	\$ 0.34(4)	\$ 0.30	\$ 0.16(5)
Shares used in per-share calculation--basic*	3,213	3,094	2,990	2,879	2,739
Shares used in per-share calculation--diluted*	3,398	3,245	3,128	3,004	2,869
Total assets	\$14,725	\$ 8,972	\$ 5,494	\$ 3,639	\$ 1,997

* Reflects the stock splits effective June 1999, September 1998, December 1997, and February 1996, which were two-for-one, three-for-two, three-for two, and two-for-one, respectively.

(1) All historical financial information has been restated to reflect the acquisition of GeoTel in June 1999, which was accounted for as a pooling of interests.

(2) Net income and net income per share include purchased research and development expenses of \$471 million and acquisition-related costs of \$16 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$2,548 million and \$0.75, respectively.

(3) 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 \$1,885 million and \$0.58, respectively.

(4) 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 \$152 million. Pro forma net income and diluted net income per share, excluding these nonrecurring items net of tax, would have been \$1,416 million and \$0.45, respectively.

(5) 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 \$512 million and \$0.18, respectively.

All historical financial information and analysis have been restated to reflect the acquisition of GeoTel in June 1999, which was accounted for as a pooling of interests.

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". You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks faced by us described in this Annual Report and in the Risk Factors sections, among others, included in the documents Cisco files with the SEC, specifically Cisco's most recent reports on Form 10-K and form 10-Q.

Comparison of 1999 and 1998

Net sales grew to \$12.2 billion in 1999 from \$8.5 billion in 1998. The 43.2% increase in net sales during the year was primarily a result of increasing unit sales of LAN switching products such as the Catalyst(R) 5000 family, the Catalyst 2900 series of switches for smaller enterprise networks, access servers such as the Cisco 2600 and 3600 families, high-performance WAN switching and routing products including the IGX (TM) and BPX(R) switches, and the Cisco 12000 gigabit switch router (GSR) and increased maintenance service contract sales. These increases were partially offset by lower unit sales of some of our more established product lines, such as the Cisco 4000 and Cisco 2500 product families. The Company is managed on four geographic theaters: the Americas; Europe, Middle East and Africa (EMEA); Asia/Pacific; and Japan. Sales in 1999 grew 40.8% in the Americas, 52.1% in EMEA, 54.2% in Asia/Pacific and 23.3% in Japan from 1998. The strong growth in the Americas, EMEA, and Asia/Pacific is primarily being driven by market demand and deployment of Internet technologies and business solutions, as well as the overall economic health within these regions. The slower growth in Japan can be attributed to weaker economic conditions, delayed government spending, and a stronger dollar versus the yen.

Gross margins decreased slightly to 65.1% during 1999 from 65.6% in 1998. The decrease is due primarily to our continued shift in revenue mix towards our lower-margin products and the continued pricing pressure seen from competitors in certain product areas. The prices of component parts have fluctuated in the recent past, and we expect that this trend may continue. An increase in the price of component parts may have a material adverse impact on gross margins. We also expect that gross margins will continue to decrease in the future, because we believe 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 our higher-margin router and high-performance switching products. Additionally, as we focus on new market opportunities, we face increasing competitive pressure from large telecommunications equipment suppliers and well-funded startup companies, which may materially adversely affect gross margins. We are attempting to mitigate this trend through various means, such as increasing the functionality of our products, continuing value engineering, controlling royalty costs, and improving manufacturing efficiencies. There can be no assurance that any efforts we make in these and other areas will successfully offset decreasing margins.

Research and development expenses increased by \$568 million in 1999 compared with 1998 expenditures, an increase to 13.1% of net sales from 12.1% in 1998. The increase reflects our ongoing research and development efforts in a wide variety of areas such as data, voice and video integration, digital subscriber line (DSL) technologies, cable modem technology, wireless access, 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, 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 rate similar to or slightly greater

than the sales growth rate, as we continue to invest in technology to address potential market opportunities. We also continue to purchase technology in order to bring a broad range of products to the market in a timely fashion. If we believe that we are unable to enter a particular market in a timely manner, with internally developed products, we may license technology from other businesses or acquire other businesses as an alternative to internal research and development. All of our research and development costs are expensed as incurred.

Sales and marketing expenses increased by \$875 million in fiscal 1999 over fiscal 1998, an increase to 20.1% of net sales in 1999 from 18.5% in fiscal 1998. The increase is due principally to an increase in the size of our direct sales force and its commissions, our recent television advertising campaign to build brand awareness, additional marketing and advertising costs associated with the introduction of new products, and the expansion of distribution channels. The increase also reflects our efforts to invest in certain key areas such as expansion of our end-to-end strategy and service provider coverage in order to be positioned to take advantage of future market opportunities.

General and administrative expenses rose by \$156 million in fiscal 1999 over fiscal 1998, an increase to 3.4% from 3.1% of net sales. The increase primarily reflects increased levels of amortization for acquisition-related intangible assets and \$16 million of costs associated with the acquisition of GeoTel. We intend to keep general and administrative costs relatively constant as a percentage of net sales; however, this depends on 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 1999 arose from the purchase acquisitions of American Internet Corporation, Summa Four, Inc., Clarity Wireless Corporation, Selsius Systems, Inc., PipeLinks, Inc., and Amteva Technologies, Inc. (see Note 3 to the financial statements).

The fair value of the existing products and patents as well as the technology currently under development was determined by using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations were typically derived from a weighted average cost of capital analysis, adjusted upward to reflect additional risks inherent in the development life cycle. These risk factors have increased the overall discount rate between 4% and 9.5% for acquisitions in the current year. We expect that the pricing model for products related to these acquisitions will be considered standard within the high-technology communications industry. However, we do not expect to achieve a material amount of expense reductions or synergies as a result of integrating the acquired in-process technology. Therefore, the valuation assumptions do not include significant anticipated cost savings. We expect that products incorporating the acquired technology from these acquisitions will be completed and begin to generate cash flows over the six to nine months after integration. However, development of these technologies remains a significant risk due to the remaining effort to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and significant competitive threats from numerous companies. The nature of the efforts to develop the acquired technology into commercially viable products consists principally of planning, designing, and testing activities necessary to determine that the product can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share, or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

Regarding our purchase acquisitions completed in fiscal 1998, research and development efforts are substantially complete and actual results to date have been consistent, in all material respects, with our assumptions at the time of the acquisitions. The assumptions primarily consist of an expected completion date for the in-process projects, estimated costs to complete the projects, and revenue and expense projections once the products have entered the market. Products from these 1998 acquisitions have been introduced to the market in the last nine to twelve months. Shipment volumes of products from acquired technologies are not material to our overall position at the present time. Therefore, it is difficult to determine the accuracy of overall revenue projections early in the technology or product life cycle. Failure to achieve the expected levels of revenues and net income from these products will negatively impact the return on investment expected at the time that the acquisition was completed and potentially result in impairment of any other assets related to the development activities.

The following table summarizes the significant assumptions underlying the valuations in 1999 and 1998 and the development costs we incurred in the periods after the respective acquisition date (in millions, except percentages):

ENTITY NAME	Acquisition Assumptions		Approximate Development Costs Incurred to Date after Acquisition on Acquired In-Process Technology
	Estimated Cost to Complete Technology at Time of Acquisition	Risk-Adjusted Discount Rate for In-Process R&D	

1999 PURCHASE ACQUISITIONS			
American Internet Corporation	\$ 1	25%	\$ 1
Summa Four, Inc.	\$ 5	25%	\$ 5
Clarity Wireless, Inc.	\$42	32%	\$10
Selsius Systems, Inc.	\$15	31%	\$ 4
PipeLinks, Inc.	\$ 5	31%	\$10
Amteva Technologies, Inc.	\$ 4	35%	\$ 1

1998 PURCHASE ACQUISITIONS			
Dagaz Technologies	\$10	35%	\$10
LightSpeed International, Inc.	\$13	26%	\$15
WheelGroup Corporation	\$ 8	24%	\$ 8
NetSpeed International, Inc.	\$12	32%	\$16
CLASS Data Systems	\$ 3	24%	\$ 2

Interest and other income, net, was \$332 million in 1999 and \$196 million in 1998. Interest income rose as a result of additional investment income on our increasing investment balances.

Our effective tax rate for fiscal 1999 was 33% excluding the 3.8% impact of nondeductible purchased research and development. Our future effective tax rate could be adversely affected if earnings are lower than anticipated in countries where we have lower effective rates, or by unfavorable changes in tax laws and regulations.

Comparison of 1998 and 1997

Net sales grew to \$8.5 billion in 1998 from \$6.5 billion in 1997. The 31.6% increase in net sales during 1998 was primarily a result of increasing unit sales of high-end switches such as the Catalyst 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 in 1998 for lower-priced access and switching products targeting small and medium-sized businesses increased faster than that of the Company's high-end core router products. However, because these products carried lower average selling prices, the 1998 growth rate slowed compared with 1997. Additionally, some of our more established product lines, such as the Cisco 2500 product family and the Catalyst 4000, experienced decelerating growth rates. Sales in 1998 grew 44.4% in the Americas, 36.3% in EMEA, and 18.1% in Asia/Pacific versus 1997, but decreased 21.8% in Japan from 1997 levels.

Gross margins increased slightly to 65.6% during 1998 from 65.2% in 1997. This increase was due principally to our improvements in value-engineering efforts and material cost reductions, partially offset by a continued shift in product mix to our lower-margin products and pricing pressure from competitors in certain product areas.

Research and development expenses increased by \$324 million in 1998 compared with 1997 expenditures, an increase to 12.1% of net sales from 10.9% in 1997. The increase reflected our ongoing research and development efforts in a wide variety of areas such as data, voice and video integration, 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.

Sales and marketing expenses increased by \$408 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 was due principally to an increase in the size of our 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 reflected our efforts to invest in certain key areas such as expansion of our end-to-end strategy and service provider coverage in order to be positioned to take advantage of future market opportunities.

General and administrative expenses rose by \$56 million in fiscal 1998 over fiscal 1997, a decrease to 3.1% from 3.2% of net sales. The dollar increase reflected increased personnel costs necessary to support our business infrastructure, including those associated with our European Logistics Center, the further development of our information systems, as well as increased levels of amortization for acquisition-related intangible assets.

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 International, Inc., and CLASS Data Systems (see Note 3 to the financial statements).

Interest and other income, net, was \$196 million in 1998 and \$110 million in 1997. Interest income rose as a result of additional investment income on our increasing investment balances. In fiscal 1997, we began selling our holdings in a publicly traded company at amounts significantly above the cost basis of the investment. Also in 1997, we established the Cisco Systems Foundation ("the Foundation"). As part of this initiative, we 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 \$152 million in fiscal 1997 (see Note 5 to the financial statements).

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (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 balance sheet and measure those instruments at fair value. We do not believe this will have a material effect on the our operations. Implementation of this standard has recently been delayed by the FASB for a 12-month period. The Company will now adopt SFAS 133 as required for its first quarterly filing of fiscal year 2001.

Liquidity and Capital Resources

Cash, short-term investments, and investments were \$9.0 billion at July 31, 1999, an increase of \$3.8 billion from July 25, 1998. The increase is primarily a result of cash generated by operations and financing activities, primarily the exercise of employee stock options. These cash flows were partially offset by cash outflows from operating activities, including tax payments of approximately \$301 million and cash outflows from investing activities including capital expenditures of approximately \$584 million.

Accounts receivable decreased 4.7% during 1999. Days sales outstanding in receivables improved to 32 days as of July 31, 1999, from 49 days as of July 25, 1998. Inventories increased 80.1% between July 31, 1999, and July 25, 1998, which reflects new product introductions, continued growth in our two-tiered distribution system, and the need to maintain shorter lead times on certain products. Inventory management remains an area of focus as we balance 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 44.4% during 1999 primarily due to increasing levels of raw material purchases. Other accrued liabilities increased by 83.2% primarily due to higher deferred revenue on service contracts.

At July 31, 1999, we had a line of credit totaling \$500 million, which expires in July 2002. There have been no borrowings under this agreement (see Note 6 to the financial statements).

We have entered into certain lease arrangements in San Jose, California, and Research Triangle Park, North Carolina, where we have established our headquarters operations and certain research and development and customer support activities. In connection with these transactions, we have pledged \$1.1 billion of our investments as collateral for certain obligations of the leases. We anticipate that we will occupy more

leased property in the future that will require similar pledged securities; however, we do not expect the impact of this activity to be material to our liquidity position.

We believe that our current cash and equivalents, short-term investments, line of credit, and cash generated from operations will satisfy our expected working capital, capital expenditure, and investment requirements through fiscal 2000.

Risk Factors

Set forth below and elsewhere in this Annual Report and in the other documents we file with the SEC, including our most recent Form 10-K and Form 10-Q, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report.

CISCO IS EXPOSED TO FLUCTUATIONS IN THE EXCHANGE RATES OF FOREIGN CURRENCY

As a global concern, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Historically, our primary exposures related to nondollar-denominated sales in Japan, Canada, and Australia and nondollar-denominated operating expenses in Europe, Latin America, and Asia where we sell primarily in U.S. dollars. Additionally, we have recently seen our exposures to emerging market currencies, such as the Brazilian real, Korean won, and Russian ruble, among others, increase because of our expanding presence in these markets and the extreme currency volatility. We currently do not hedge against these or any other emerging market currencies and could suffer unanticipated gains or losses as a result.

The increasing use of the euro as a common currency for members of the European Union could impact our foreign exchange exposure. We are currently hedging against fluctuations with the euro and will continue to evaluate the impact of the euro on our future foreign exchange exposure as well as on our internal systems.

At the present time, we hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies, and do not hedge anticipated foreign currency cash flows. The hedging activity undertaken by us is intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. The success of this activity depends upon estimations of intercompany balances denominated in various currencies, primarily the euro, Japanese yen, Canadian dollar, Australian dollar, and certain other European currencies. To the extent that these forecasts are over- or understated during periods of currency volatility, we could experience unanticipated currency gains or losses.

CISCO IS EXPOSED TO THE CREDIT RISK OF SOME OF ITS CUSTOMERS AND TO CREDIT EXPOSURES IN WEAKENED MARKETS

We are experiencing a greater proportion of our sales activity through our partners in two-tier distribution channels. These customers are generally given privileges to return inventory, receive credits for changes in selling prices, and participate in cooperative marketing programs. We maintain appropriate accruals 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. We are experiencing increased demands for customer financing and leasing solutions, particularly to competitive local exchange carriers ("CLECs"). CLECs typically finance significant networking infrastructure deployments through alternative forms of financing, including leasing, through Cisco. Although we have programs in place to monitor and mitigate the associated risk, there can be no assurance that such programs will alleviate all of our credit risk. We also continue to monitor increased credit exposures because of the weakened financial conditions in Asia, and other emerging market regions, and the impact that such conditions may have on the worldwide economy.

Although we have not experienced significant losses due to customers failing to meet their obligations to date, such losses, if incurred, could harm our business and financial position.

CISCO IS EXPOSED TO FLUCTUATIONS IN THE FAIR VALUES OF ITS PORTFOLIO INVESTMENTS AND IN INTEREST RATES

We maintain 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 accumulated other comprehensive income, net of tax. Part of this portfolio includes minority equity investments in several publicly traded companies, the values of which are subject to market price volatility. We have also invested in numerous privately held companies, many of which can still be considered in the startup or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies. We also have 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 our investment portfolio while increasing the costs associated with our lease commitments. Conversely, declines in interest rates could have a material impact on interest earnings for our investment portfolio. We do not currently hedge these interest rate exposures.

The following table presents the hypothetical changes in fair values in the financial instruments we held at July 31, 1999, 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 12-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 31, 1999. Ending fair values are the market principal plus accrued interest, dividends, and reinvestment income at a 12-month time horizon. This table estimates the fair value of the portfolio at a 12-month time horizon (in millions):

Issuer	Valuation of securities of securities given an interest rate decrease of X basis points rates			No change in interest rate	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	\$2,440	\$2,426	\$2,411	\$2,393	\$2,376	\$2,354	\$2,341
State, municipal, and county government notes and bonds	5,513	5,444	5,386	5,315	5,248	5,166	5,113
Corporate notes and bonds	1,297	1,287	1,277	1,268	1,259	1,241	1,241
Total	\$9,250	\$9,157	\$9,074	\$8,976	\$8,883	\$8,761	\$8,695

A 50-BPS move in the Federal Funds Rate has occurred in nine of the last ten years; a 100-BPS move in the Federal Funds Rate has occurred in six of the last ten years; and a 150-BPS move in the Federal Funds Rate has occurred in four of the last ten years.

The following analysis presents the hypothetical change in fair values of public equity investments we held 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 12-month time horizon (in millions):

	Valuation of security given X% decrease in each stock's price			Fair value as of July 31, 1999	Valuation of Security given X% Increase in each stock's price		
	(50)%	(35)%	(15)%		15%	35%	50%
Corporate equities	\$438	\$570	\$745	\$877	\$1,009	\$1,184	\$1,315

Our equity portfolio consists of securities with characteristics that most closely match the S&P Index or companies traded on the NASDAQ Exchange. The NASDAQ Composite Index has shown a 15% movement in each of the last three years, a 35% movement in one of the last three years, and a 50% movement in none of the last three years.

We also are 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 31, 1999 due to changes in the LIBOR. The modeling technique used measured hypothetical changes in lease obligations arising from selected hypothetical changes in the LIBOR. Market changes reflected immediate hypothetical parallel shifts in the LIBOR curve of plus or minus 50 BPS, 100 BPS, and 150 BPS over a 12-month period. The results of this analysis were not material to our financial results.

We enter into forward foreign exchange contracts to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities, primarily denominated in euro, Japanese, Canadian, Australian, and certain European currencies.

We generally enter 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 \$211 million and \$180 million, respectively. We do not expect gains or losses on these contracts to have a material impact on our financial results (see Note 7 to the financial statements).

SINCE CISCO'S GROWTH RATE MAY SLOW, OPERATING RESULTS FOR A PARTICULAR QUARTER ARE DIFFICULT TO PREDICT

We expect that in the future, our net sales may grow at a slower rate than experienced in previous periods, and that on a quarter-to-quarter basis, our growth in net sales may be significantly lower than our historical quarterly growth rate. As a consequence, operating results for a particular quarter are extremely difficult to predict. Our ability to meet financial expectations could be hampered if the nonlinear sales pattern seen in past quarters reoccurs in future periods. We generally have 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, we continue to attempt to reduce our 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 our quarter-to-quarter net sales and operating results going forward. On the other hand, for certain products, lead times are longer than our goal. If we cannot reduce manufacturing lead times for such products, our customers may cancel orders or not place further orders if shorter lead times are available from other manufacturers, thus creating additional variability.

CISCO IS EXPOSED TO UNFAVORABLE ECONOMIC CONDITIONS WORLDWIDE

As a result of recent unfavorable economic conditions, sales to certain countries in the Pacific Rim, Eastern Europe, and Latin America have declined as a percentage of our total revenue. If the economic conditions in these markets, or other markets that recently experienced unfavorable conditions worsen, or if these unfavorable conditions result in a wider regional or global economic slowdown, this decline may have a material adverse impact on our business, operations, and financial condition.

CISCO CANNOT PREDICT THE IMPACT OF RECENT ACTIONS AND COMMENTS BY THE SEC

Recent actions and comments from the Securities and Exchange Commission have indicated they are reviewing the current valuation methodology of purchased in-process research and development related to business combinations. The Commission is concerned that some companies are writing off more of the value of an acquisition than is appropriate. We believe we are in compliance with all of the rules and related guidance as they currently exist. However, there can be no assurance that the Commission will not seek to reduce the amount of purchased in-process research and development previously expensed by us. This would result in the restatement of our previously filed financial statements and could have a material negative impact on financial results for the periods subsequent to acquisitions. Additionally, the Financial Accounting Standards Board ("FASB") has announced that it plans to rescind the pooling of interests method of acquisition accounting. If this occurs, it could alter our acquisition strategy and potentially impair our ability to acquire companies. The FASB has also announced that it is reviewing the current accounting rules associated with stock options. The FASB is concerned that current practice, as outlined in Accounting Principles Board No. 25 (APB25), does not accurately reflect appropriate compensation expense under a variety of scenarios, including the assumption of option plans from acquired companies. The changes proposed could make it more difficult to attract and retain qualified personnel and could unfavorably impact operating results.

CISCO EXPECTS GROSS MARGINS TO DECLINE OVER TIME

We expect 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, we believe 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 our higher-margin router and high-performance switching products targeted toward enterprise and service provider customers. We have recently introduced several new products, with additional new products scheduled to be released in the near future. If warranty costs associated with these new products are greater than we have experienced historically, gross margins may be adversely affected. Our gross margins may also be impacted by geographic mix, as well as the mix of configurations within each product group. We continue 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 our products, and to a certain degree, the timing of its orders.

We also expect that our operating margins may decrease as we continue to hire additional personnel and increase other operating expenses to support our business. We plan our 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.

YOU SHOULD EXPECT THAT CISCO'S OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS

The results of operations for any quarter are not necessarily indicative of results to be expected in future periods. Our operating results have in the past been, and will continue to be, subject to quarterly fluctuations as a result of a number of factors. These factors include:

- o The integration of people, operations, and products from acquired businesses and technologies
- o Increased competition in the networking industry
- o The overall trend toward industry consolidation
- o 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 data, voice and video capabilities
- o Variations in sales channels, product costs, or mix of products sold
- o The timing of orders and manufacturing lead times
- o The trend toward sales of integrated network solutions
- o Changes in general economic conditions and specific economic conditions in the computer and networking industries

Any of these above factors could have a material adverse impact on our operations and financial results. For example, we from time to time have 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 our quarterly earnings. Additionally, the dollar amounts of large orders for our 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, for example, due to cancellations, delays, or deferrals by customers.

THE YEAR 2000 PROBLEM MAY HAVE AN ADVERSE EFFECT ON CISCO'S OPERATIONS AND ABILITY TO OFFER PRODUCTS AND SERVICES WITHOUT INTERRUPTION

We are continuing to assess the impact of the year 2000 issue on our current and future products, internal information systems, and noninformation technology systems (equipment and systems) and has begun, and in many cases completed, corrective efforts in these areas.

We are using a four-phased approach to address the issue:

- o The first phase consists of the inventorying of all potential business disruption problems, including those with products and systems, as well as potential disruption from suppliers and other third parties.
- o The second phase consists of the prioritization of all the potential problems to allocate the appropriate level of resources to the most critical areas.
- o The third phase addresses the remediation programs to solve or mitigate any identified year 2000 problems.
- o The fourth phase consists of the development of contingency plans to address potential year 2000 problems that may arise with Cisco, our customers, and our suppliers.

We have largely completed the implementation of year 2000-compliant internal computer applications for its main financial, manufacturing, and order processing systems. The systems are being tested for compliance, and we do not currently expect any significant issues to be identified during this review. However, the failure of any internal system to achieve year 2000 readiness could result in material disruption to our operations.

We have also conducted extensive work regarding the status of our currently available, developing, and installed base of products. We believe that our current products are largely year 2000-compliant. There can be no assurance that certain previous releases of our products that are no longer under support will prove to be year 2000-compliant with customers' systems or within an existing network. Further information about our products is available on our Year 2000 Internet

Web site. We have developed programs for customers who have indicated a need to upgrade components of their systems. However, the inability of any of our products to properly manage and manipulate data in the year 2000 could result in increased warranty costs, customer satisfaction issues, potential lawsuits, and other material costs and liabilities.

We have completed phases I and II of our review of our supplier bases and, in the third phase of the compliance approach, are in the process of reviewing the state of readiness of our supplier base. This exercise includes compliance inquiries and reviews that will continue throughout calendar 1999. Where issues are identified with a particular supplier, contingency plans will be developed as discussed below. Even where assurances are received from third parties there remains a risk that failure of systems and products of other companies on which we rely could have a material adverse effect on us. Further, if these suppliers fail to adequately address the year 2000 issue for the products they provide to us, critical materials, products, and services may not be delivered in a timely manner and we may not be able to manufacture sufficient product to meet sales demand.

Based on the work done to date, we have not incurred material costs and do not expect to incur future material costs in the work to address the year 2000 problem for our systems (as a result of relatively new legacy information systems) and products.

We have taken and will continue to take corrective action to mitigate any significant year 2000 problems with our systems and products and believe that the year 2000 issue for information systems will not have a material impact on our operations or financial results. However, there can be no assurance that we will not experience significant business disruptions or loss of business due to an inability to adequately address the year 2000 issue. We are concerned that many enterprises will be devoting a substantial portion of their information systems spending to addressing the year 2000 issue. This expense may result in spending being diverted from networking solutions in the near future. This diversion of information technology spending could have a material adverse impact on our future sales volume.

Contingency plans are being developed in certain key areas, in particular surrounding third-party manufacturers and other suppliers, to ensure that any potential business interruptions caused by the year 2000 issue are mitigated. Such contingency plans include identification of alternative sources of supply and test exercises to ensure that such alternatives are able to provide us with an adequate level of support. These plans are being developed, refined, and tested in the last six months of calendar 1999.

The foregoing statements are based upon our best estimates at the present time, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans, and other factors. There can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to:

- o The availability and cost of personnel trained in this area
- o The ability to locate and correct all relevant computer codes
- o The nature and amount of programming required to upgrade or replace each of the affected programs
- o The rate and magnitude of related labor and consulting costs and the success of Cisco's external customers and suppliers in addressing the year 2000 issue

Our evaluation is ongoing and we expect that new and different information will become available to us as that evaluation continues. Consequently, there is no guarantee that all material elements will be year 2000-ready in time.

Consolidated Statements of Operations
(in millions, except per-share amounts)

YEARS ENDED	July 31, 1999	July 25, 1998	July 26, 1997
NET SALES	\$12,154	\$ 8,488	\$ 6,452
Cost of sales	4,240	2,924	2,243
Gross margin	7,914	5,564	4,209
Expenses:			
Research and development	1,594	1,026	702
Sales and marketing	2,447	1,572	1,164
General and administrative	418	262	206
Purchased research and development	471	594	508
Total operating expenses	4,930	3,454	2,580
OPERATING INCOME	2,984	2,110	1,629
Realized gains on sale of investment		5	152
Interest and other income, net	332	196	110
Income before provision for income taxes	3,316	2,311	1,891
Provision for income taxes	1,220	956	840
NET INCOME	\$ 2,096	\$ 1,355	\$ 1,051
Net income per common share--basic	\$ 0.65	\$ 0.44	\$ 0.35
Net income per common share--diluted	\$ 0.62	\$ 0.42	\$ 0.34
Shares used in per-share calculation--basic	3,213	3,094	2,990
Shares used in per-share calculation--diluted	3,398	3,245	3,128

See notes to consolidated financial statements.

Consolidated Balance Sheets
(in millions, except par value)

	July 31, 1999	July 25, 1998
ASSETS		
Current assets:		
Cash and equivalents	\$ 827	\$ 580
Short-term investments	1,189	1,157
Accounts receivable, net of allowances for doubtful accounts of \$27 in 1999 and \$40 in 1998	1,242	1,303
Inventories, net	652	362
Deferred income taxes	537	345
Prepaid expenses and other current assets	168	67
Total current assets	4,615	3,814
Investments	7,032	3,463
Restricted investments	1,080	554
Property and equipment, net	801	599
Other assets	1,197	542
TOTAL ASSETS	\$14,725	\$ 8,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 361	\$ 250
Income taxes payable	630	411
Accrued payroll and related expenses	678	392
Other accrued liabilities	1,334	728
Total current liabilities	3,003	1,781
Commitments and contingencies (Note 7)		
Minority interest	44	43
Shareholders' equity:		
Preferred stock, no par value, 5 shares authorized: none issued or outstanding in 1999 and 1998 (Note 8)		
Common stock and additional paid-in capital, \$0.001 par value 5,400 shares authorized: 3,271 shares issued and outstanding in 1999 and 3,152 shares in 1998	5,524	3,262
Retained earnings	5,856	3,828
Accumulated other comprehensive income (Note 8)	298	58
Total shareholders' equity	11,678	7,148
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$14,725	\$ 8,972

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows
(in millions)

YEARS ENDED	July 31, 1999	July 25, 1998	July 26, 1997
Cash flows from operating activities:			
Net income	\$ 2,096	\$ 1,355	\$ 1,051
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	486	328	214
Provision for doubtful accounts	19	43	13
Provision for inventory allowances	151	161	123
Deferred income taxes	(207)	(60)	(186)
Tax benefits from employee stock plans	837	422	274
Adjustment to conform fiscal year ends of pooled acquisitions	2		(11)
Purchased research and development from acquisitions	379	436	273
Change in operating assets and liabilities:			
Accounts receivable	54	(166)	(559)
Inventories	(434)	(266)	(74)
Prepaid expenses and other current assets	(97)	22	6
Accounts payable	102	28	53
Income taxes payable	218	154	86
Accrued payroll and related expenses	282	127	67
Other accrued liabilities	550	306	118
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,438	2,890	1,448
Cash flows from investing activities:			
Purchases of short-term investments	(1,250)	(1,611)	(1,431)
Proceeds from sales and maturities of short-term investments	1,660	1,751	1,276
Purchases of investments	(5,632)	(3,561)	(1,762)
Proceeds from sales and maturities of investments	1,994	1,107	1,052
Purchases of restricted investments	(1,101)	(527)	(351)
Proceeds from sales and maturities of restricted investments	560	337	219
Acquisition of property and equipment	(584)	(417)	(332)
Acquisition of businesses, net of cash acquired and purchased research and development	(19)		(19)
Net investment in leases	(310)	(171)	(20)
Other	(255)	(3)	(39)
NET CASH USED IN INVESTING ACTIVITIES	(4,937)	(3,095)	(1,407)
Cash flows from financing activities:			
Issuance of common stock	740	489	308
Common stock repurchases			(323)
Other	6	(10)	(5)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	746	479	(20)
Net increase in cash and equivalents	247	274	21
Cash and equivalents, beginning of year	580	306	285
CASH AND EQUIVALENTS, END OF YEAR	\$ 827	\$ 580	\$ 306
Non-cash investing and financing activities:			
Transfers of securities to restricted investments	\$ --	\$ --	\$ 3,586

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
(in millions)

	Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number of Shares	Amount			
BALANCE AS OF JULY 28, 1996	2,927	\$ 900	\$ 1,770	\$ 154	\$ 2,824
Net income			1,051		1,051
Change in unrealized gain on investments				(109)	(109)
Translation adjustment				(5)	(5)
Comprehensive income					937
Issuance of common stock	107	308			308
Tax benefit from employee stock plans		274			274
Common stock repurchases	(22)	(10)	(313)		(323)
Pooling of interest acquisitions	17	7	(15)		(8)
Purchase acquisitions	17	324			324
Adjustment to conform fiscal year ends of pooled acquisitions			(11)		(11)
BALANCE AS OF JULY 26, 1997	3,046	1,803	2,482	40	4,325
Net income			1,355		1,355
Change in unrealized gain on investments				28	28
Translation adjustment				(10)	(10)
Comprehensive income					1,373
Issuance of common stock	82	489			489
Tax benefit from employee stock plans		422			422
Pooling of interest acquisitions	3	12	(9)		3
Purchase acquisitions	21	536			536
BALANCE AS OF JULY 25, 1998	3,152	3,262	3,828	58	7,148
Net income			2,096		2,096
Change in unrealized gain on investments				234	234
Translation adjustment				6	6
Comprehensive income					2,336
Issuance of common stock	98	740			740
Tax benefit from employee stock plans		837			837
Pooling of interest acquisitions	8	115	(70)		45
Purchase acquisitions	13	570			570
Adjustment to conform fiscal year ends of pooled acquisitions			2		2
BALANCE AS OF JULY 31, 1999	3,271	\$ 5,524	\$ 5,856	\$ 298	\$11,678

See 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 year ended July 31, 1999, was a 53-week year. The fiscal years ended July 25, 1998, and July 26, 1997, were 52-week years.

Principles of Consolidation The consolidated financial statements include the accounts of Cisco Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and 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 public corporate equity 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 31, 1999, and July 25, 1998, 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. The Company also has certain investments in nonpublicly traded companies. These investments are included in "Other Assets" in the Company's balance sheet and are generally carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

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, with the exception of certain financing transactions, does not require collateral from its customers.

The Company receives certain of its custom semiconductor 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.

REVENUE RECOGNITION The Company generally recognizes product revenue upon shipment of product unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from service obligations is deferred and generally recognized ratably over the period of the obligation. The Company makes certain sales to partners in two-tier distribution channels. These customers are generally given privileges to return a portion of inventory and participate in various cooperative marketing programs. The Company recognizes revenues to two-tier distributors based on management estimates to approximate the point that products have been sold by the distributors and also maintains appropriate accruals and allowances for all other programs. The Company accrues for warranty costs, sales returns, and other allowances at the time of shipment based on its experience.

The Company adopted Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," in the first quarter of fiscal year 1999 and its adoption had no material impact on the Company's operating results or financial position.

NET INVESTMENT IN LEASES Net investment in leases represents sales-type and direct-financing leases. These leases typically have terms of two to five years and are usually collateralized by a security interest in the underlying assets.

ADVERTISING COSTS The Company expenses all advertising costs as they are incurred.

SOFTWARE DEVELOPMENT COSTS Software development costs, which are required to be capitalized pursuant to Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," have not been material to the Company to date.

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.

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 Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per common 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). Share and per-share data presented reflect the two-for-one stock split effective June 1999 and the three-for-two stock splits effective September 1998 and December 1997.

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 highly inversely correlated to the hedged items and are designated as, and considered, effective as hedges of the underlying assets or liabilities. Gains and losses on the contracts are included in interest and other income, net 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 interest and other income, net.

MINORITY INTEREST Minority interest represents the preferred stockholders' proportionate share of the equity of Nihon Cisco Systems, K.K. At July 31, 1999, 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, inventory reserves, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Actual results could differ from these estimates.

COMPREHENSIVE INCOME In the first quarter of fiscal 1999, the Company adopted SFAS No. 130 "Reporting Comprehensive Income". Under SFAS 130 the Company is required to report comprehensive income, which includes the Company's net income, as well as changes in equity from other sources. In the Company's case, the other changes in equity included in comprehensive income comprise unrealized gains and losses on other available-for-sale investments and the foreign currency cumulative translation adjustment. The adoption of SFAS 130 had no impact on the Company's net income, balance sheet, or shareholders' equity.

SEGMENT INFORMATION In 1999, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 131 "Disclosures about Segments of an Enterprise and Related Information". SFAS 131 supercedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise". Under the new standard the Company is required to use the "management" approach to reporting its segments. The management approach designates that the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's segments. The adoption of SFAS 131 had no impact on the Company's net income, balance sheet, or shareholders' equity.

RECENT ACCOUNTING PRONOUNCEMENT In June 1998, the Financial Accounting Standards Board (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 balance sheet and measure those instruments at fair value. Management does not believe this will have a material effect on the Company's operations. Implementation of this standard has recently been delayed by the FASB for a 12-month period. The Company will now adopt SFAS 133 as required for its first quarterly filing of fiscal year 2001.

3. Business Combinations

Pooling of Interests Combinations

On June 24, 1999, the Company acquired GeoTel Communications Corporation ("GeoTel"). Under the terms of the agreement, 1.0276 shares of the Company's common stock were exchanged for each outstanding share of GeoTel. Approximately 28 million shares of common stock were issued to acquire GeoTel. The Company also assumed remaining outstanding stock options that were converted to options to purchase approximately six million shares of the Company's common stock. The transaction was accounted for as a pooling of interests in fiscal year 1999; therefore, all prior periods presented have been restated.

Prior to the merger, GeoTel used a calendar year end. Restated financial statements of the Company combine the July 31, 1999, July 25, 1998, and July 26, 1997, results of the Company with the July 31, 1999, June 30, 1998, and June 30, 1997, results of GeoTel, respectively. No adjustments were necessary to conform accounting policies of the entities. However, GeoTel's historical results have been adjusted to reflect an increase in income taxes because of the elimination of a previously provided valuation allowance on its deferred tax assets. There were no intercompany transactions requiring elimination in any period presented. In order for both companies to operate on the same fiscal year for 1999, GeoTel's operations for the one-month period ending July 31, 1998, which are not significant to the Company, have been reflected as an adjustment to retained earnings in fiscal 1999.

The following table shows the historical results of the Company and GeoTel for the periods prior to the consummation of the merger of the two entities (in millions):

	Nine Months Ended May 1, 1999	July 25, 1998	Year Ended July 26, 1997

Revenues:			
Cisco	\$ 8,562	\$ 8,459	\$ 6,440
GeoTel	44	29	12

Total	\$ 8,606	\$ 8,488	\$ 6,452

Net income:			
Cisco as previously reported	\$ 1,452	\$ 1,350	\$ 1,049
GeoTel as previously reported	9	8	2

Total	1,461	1,358	1,051
Adjustment to reflect elimination of valuation allowances		(3)	

Net income, as restated	\$ 1,461	\$ 1,355	\$ 1,051

The Company has also completed a number of other pooling transactions. The historical operations of these entities were not material to the Company's consolidated operations on either an individual or an aggregate 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
1997	Nashoba Networks	7
	Granite Systems, Inc.	10
1998	Precept Software, Inc.	3
1999	Fibex Systems	6
	Sentient Networks, Inc.	2

In conjunction with these poolings, the Company also assumed the outstanding options of these companies, which were converted to options to purchase approximately nine million shares of the Company's common stock.

Purchase Combinations

During the three years ended July 31, 1999, 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 aggregate 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 as follows:

Summary of Purchase Transactions (in millions)

Acquired Companies	Consideration	Date	Purchased Research and Development Charge	Form of Consideration and Other Notes to Acquisition

FISCAL 1999				
American Internet Corporation	\$ 58	Oct. 1998	\$ 41	Common stock and options assumed; goodwill and other intangibles recorded of \$18
Summa Four, Inc.	\$129	Nov. 1998	\$ 64	Common stock and options assumed, \$16 in liabilities assumed; goodwill and other intangibles recorded of \$29
Clarity Wireless, Inc.	\$153	Nov. 1998	\$ 94	Common stock and options assumed; goodwill and other intangibles recorded of \$73
Selsius Systems, Inc.	\$134	Nov. 1998	\$ 92	\$111 in cash; options assumed; goodwill and other intangibles recorded of \$41
PipeLinks, Inc.	\$118	Dec. 1998	\$ 99	Common stock and options assumed; goodwill and other intangibles recorded of \$11
Amteva Technologies, Inc.	\$159	June 1999	\$ 81	Common stock and options assumed; goodwill and other intangibles recorded of \$85; liabilities assumed of \$9

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 Corporation	\$124	March 1998	\$ 97	Common stock and options assumed; goodwill and other intangibles recorded of \$38
NetSpeed International, Inc.	\$252	April 1998	\$179	\$222 in common stock and options assumed, \$12 cash and assumed liabilities of \$18; goodwill and other intangibles recorded of \$76
CLASS Data Systems	\$ 51	June 1998	\$ 48	Cash of \$38 and options assumed

FISCAL 1997				
Telebit Corporation	\$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 Corporation	\$ 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

Total purchased research and development expense in 1999, 1998, and 1997 was \$471 million, \$594 million, and \$508 million, respectively. The purchased research and development expense that was attributable to stock consideration in purchase acquisitions for the same periods was \$379 million, \$436 million, and \$273 million, respectively.

Pending Business Combinations (unaudited)

In June 1999, the Company announced definitive agreements to purchase TransMedia Communications, Inc. ("TransMedia") and StratumOne Communications, Inc. ("StratumOne"). TransMedia provides Media Gateway technology that unites the multiple networks of public voice communications. StratumOne is a developer of highly integrated, high-performance semiconductor technology.

In August 1999, the Company announced definitive agreements to purchase Calista Inc. ("Calista"); MaxComm Technologies, Inc. ("MaxComm"); Cerent Corporation ("Cerent"); and Monterey Networks, Inc. ("Monterey"). Calista is a developer of Internet technology that allows different business phone systems to work together over an open Internet-based infrastructure for the first time. MaxComm is a developer of broadband Internet technology that brings data and multiple voice lines to consumers. Cerent is a developer of next-generation optical transport products, and Monterey is a developer of infrastructure-class, optical cross-connect technology that is used to increase network capacity at the core of an optical network.

The terms of the pending business combinations are as follows (in millions):

Entity Name	Consideration	Accounting Treatment
TransMedia Communications, Inc.	\$ 407	Pooling of interests
StratumOne Communications, Inc.	435	Pooling of interests
Calista, Inc.	55	Purchase
MaxComm Technologies, Inc.	143	Purchase
Cerent Corporation	6,900	Pooling of interests
Monterey Networks, Inc.	500	Purchase

Consideration for each of the above transactions will be the Company's common stock.

4. Balance Sheet Detail (in millions)

	July 31, 1999	July 25, 1998

INVENTORIES, NET:		
Raw materials	\$ 143	\$ 76
Work in process	198	143
Finished goods	276	111
Demonstration systems	35	32

Total	\$ 652	\$ 362
=====		
PROPERTY AND EQUIPMENT, NET:		
Leasehold improvements	\$ 282	\$ 154
Computer equipment and related software	628	537
Production and engineering equipment	238	139
Office equipment, furniture, fixtures, and other	676	441

Total	1,824	1,271

Less accumulated depreciation and amortization	(1,023)	(672)

Total	\$ 801	\$ 599
=====		
OTHER ASSETS, NET:		
Goodwill--gross	\$ 157	\$ 57
Other intangibles--gross	395	143
Accumulated amortization of intangible assets	(92)	(30)

Intangibles, net	460	170
Investments in nonpublic companies	196	90
Net investment in leases	500	190
Other assets	41	92

Total	\$1,197	\$ 542
=====		
ACCRUED PAYROLL AND RELATED EXPENSES:		
Accrued wages, paid time off, and related expenses	\$ 318	\$ 172
Accrued commissions	138	83
Accrued bonuses	222	137

Total	\$ 678	\$ 392
=====		
OTHER ACCRUED LIABILITIES:		
Deferred revenue	\$ 724	\$ 339
Accrued warranties	67	48
Other liabilities	543	341

Total	\$1,334	\$ 728
=====		

Amortization expense of intangible assets for the fiscal years ended July 31, 1999, July 25, 1998, and July 26, 1997, was \$62 million, \$23 million, and \$11 million, respectively.

5. Investments

The following tables summarize the Company's investments in securities (in millions):

July 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	\$2,187	\$	\$ (29)	\$2,158
State, municipal, and county government notes and bonds	5,177	5	(44)	5,138
Corporate notes and bonds	1,145		(17)	1,128
Corporate equity securities	288	615	(26)	877
Total	\$8,797	\$ 620	\$ (116)	\$9,301

Reported as:

Short-term investments				\$1,189
Investments				7,032
Restricted investments				1,080
Total				\$9,301

July 25, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	\$ 978	\$ 3	\$ (1)	\$ 980
State, municipal, and county government notes and bonds	3,216	11	(3)	3,224
Foreign government notes and bonds	31			31
Corporate notes and bonds	768	1	(1)	768
Corporate equity securities	55	137	(21)	171
Total	\$5,048	\$152	\$ (26)	\$5,174

Reported as:

Short-term investments				\$1,157
Investments				3,463
Restricted investments				554
Total				\$5,174

The following table summarizes debt maturities (including restricted investments) at July 31, 1999 (in millions):

	Amortized Cost	Fair Value
Less than one year	\$1,403	\$1,397
Due in 1-2 years	1,447	1,442
Due in 2-5 years	5,064	5,005
Due after 5 years	595	580
Total	\$8,509	\$8,424

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 \$152 million in fiscal 1997 and \$5 million in fiscal 1998.

6. Line of Credit

As of July 31, 1999, 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 31, 1999, this spread was 20 basis points. From this spread, a commitment fee of seven 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 \$592 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 \$993 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 commenced 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 \$569 million at July 31, 1999).

As part of the above lease transactions, the Company restricted \$1.1 billion of its investment securities as collateral for specified obligations of the lessors 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 31, 1999, are as follows (in millions):

2000	\$ 156
2001	143
2002	122
2003	109
2004	97
Thereafter	448
Total minimum lease payments	\$1,075

Rent expense totaled \$121 million, \$90 million, and \$65 million for 1999, 1998, and 1997, 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, including the euro. 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 interest and other income, net 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 31, 1999, are summarized as follows (in millions):

	Notional Value Purchased	Notional Value Sold	Unrealized Gain/(Loss)
Japanese yen	\$	\$ (49)	\$
Australian dollar		(58)	
Canadian dollar		(73)	
Euro	150		
British pound sterling	33		
Other European currencies	12		
Other Asian currencies	16		
Total	\$ 211	\$ (180)	\$ --

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 counterparties 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

The Company and its subsidiaries are subject to 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.

8. Shareholders' Equity

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."

Stock Splits In May 1999, the Company's Board of Directors approved a two-for-one split of the Company's common stock that was applicable to shareholders of record on May 24, 1999, and effective on June 21, 1999. All references to share and per-share data for all periods presented have been adjusted to give effect to this two-for-one stock split and the two three-for-two stock splits effective September 1998 and December 1997.

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 thirty-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 \$216 per right owned, stock of the surviving corporation having a market value of \$433, 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 \$0.00033 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.

Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income", as of the first quarter of fiscal 1999. SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components, however, it had no impact on the Company's net income or total shareholders' equity.

The components of comprehensive income are as follows (in millions):

	July 31, 1999	July 25, 1998	July 26, 1997
Net income	\$2,096	\$ 1,355	\$ 1,051
Other comprehensive income (loss):			
Change in unrealized gain (loss) on investments, net of tax (provision) benefit of (\$144), (\$17), and \$9 in 1999, 1998, and 1997, respectively	234	25	(14)
Reclassification for unrealized gains previously included in net income, net of tax (provision) benefit of (\$2) and \$57 in 1998 and 1997, respectively		3	(95)
Net unrealized gain (loss)	234	28	(109)
Change in accumulated translation adjustments	6	(10)	(5)
Total comprehensive income	\$2,336	\$ 1,373	\$ 937

9. Employee Benefit Plans

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("the Purchase Plan") under which 111 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 68 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 1999, 1998, and 1997, five million, seven million, and six million shares, respectively, were issued under the Purchase Plan. At July 31, 1999, 65 million shares were available for issuance under the Purchase Plan.

Stock Option Plans

The Company has two main stock option plans: the 1987 Stock Option Plan (the "Predecessor Plan") and the 1996 Stock Incentive Plan (the "1996 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 310 million shares transferred from the Predecessor Plan. However, under the terms of the 1996 Plan, the share reserve increases each December for the 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. In fiscal year 1999, the Company's shareholders approved the extension of the automatic share increase provision of the 1996 plan for an additional three-year period. 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 millions, except per-share amounts):

	Options Available for Grant	Options	Options Outstanding Weighted Average Exercise Price

Balances, July 28, 1996	76	312	\$ 5.09
Granted and assumed	(192)	192	10.83
Exercised		(79)	2.84
Canceled	21	(21)	7.64
Additional shares reserved	143		

Balances, July 26, 1997	48	404	8.13
Granted and assumed	(129)	129	21.72
Exercised		(76)	5.31
Canceled	22	(22)	9.87
Additional shares reserved	147		

Balances, July 25, 1998	88	435	12.56
Granted and assumed	(107)	107	49.58
Exercised		(93)	6.85
Canceled	10	(10)	24.66
Additional shares reserved	165		

Balances, July 31, 1999	156	439	\$ 22.52
=====			

The Company has, in connection with the acquisition of various companies, assumed the stock option plans of each acquired company. A total of 30 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 31, 1999 (in millions, except number of years and per-share amounts):

Range of Exercise Prices	Number Outstanding	Options Outstanding		Weighted Average Exercise Price per Share	Options Exercisable	
		Weighted Average Remaining Contractual Life (in Years)	Weighted Average		Number Exercisable	Weighted Average Exercise Price per Share
\$ 0.01 - 9.00	76	4.2		\$ 5.34	66	\$ 5.54
9.01 - 11.11	89	6.4		10.59	52	10.63
11.12 - 18.08	78	6.5		13.87	40	13.57
18.09 - 24.54	79	7.6		23.74	22	23.64
24.55 - 68.25	117	8.4		47.69	5	29.12
Total	439	6.8		\$22.52	185	\$11.50

At July 25, 1998, and July 26, 1997, approximately 156 million, and 112 million outstanding options, respectively, were exercisable. The weighted average exercise prices for options were \$7.27 and \$4.59 at July 25, 1998, and

July 26, 1997, respectively.

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 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 Statement 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 123 pro forma numbers are as follows (in millions, except per-share amounts and percentages):

	1999	1998	1997
Net income--as reported under APB 25	\$2,096	\$1,355	\$1,051
Net income--pro forma under SFAS 123	\$1,598	\$1,108	\$ 899
Basic net income per common share--as reported under APB 25	\$ 0.65	\$ 0.44	\$ 0.35
Diluted net income per common share--as reported under APB 25	\$ 0.62	\$ 0.42	\$ 0.34
Basic net income per common share--pro forma under SFAS 123	\$ 0.50	\$ 0.36	\$ 0.30
Diluted net income per common share--pro forma under SFAS 123	\$ 0.47	\$ 0.35	\$ 0.29

Under SFAS 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		
	1999	1998	1997	1999	1998	1997
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.1%	5.7%	6.4%	4.9%	5.4%	5.3%
Expected volatility	40.2%	35.6%	32.8%	47.2%	44.8%	44.4%
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 1999, 1998, and 1997 were \$16.79, \$7.14, and \$3.47 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. The Company also has other 401(k) plans which it administers. These plans arose from acquisitions of other companies and are not material to the Company on either an individual or aggregate basis.

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 \$20 million in 1999, \$15 million in 1998, and \$13 million in 1997. No discretionary contributions were made in 1999, 1998, or 1997.

10. Income Taxes

The provision (benefit) for income taxes consists of (in millions):

	1999	1998	1997

Federal:			
Current	\$ 1,164	\$ 855	\$ 845
Deferred	(184)	(39)	(172)
	980	816	673
=====			
State:			
Current	112	87	153
Deferred	(21)	(7)	(15)
	91	80	138
=====			
Foreign:			
Current	151	74	28
Deferred	(2)	(14)	1
	149	60	29

Total provision for income taxes	\$ 1,220	\$ 956	\$ 840
=====			

The Company paid income taxes of \$301 million, \$440 million, and \$659 million, in fiscal 1999, 1998, and 1997, respectively.

Income (loss) before provision for income taxes consisted of:

	1999	1998	1997
U.S.	\$2,205	1,990	2,011
International	1,111	321	(120)
	\$3,316	\$2,311	\$1,891

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes follow:

	1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
State taxes, net of federal benefits	2.2	2.2	4.5
Foreign sales corporation	(1.6)	(2.4)	(3.3)
Foreign income at other than U.S. rates	(1.0)		
Nondeductible purchased R&D	3.8	6.4	7.1
Tax-exempt interest	(1.9)	(1.6)	(1.0)
Tax credits	(1.2)	(1.4)	(1.3)
Other, net	1.5	3.2	3.4
	36.8%	41.4%	44.4%

U.S. income taxes and foreign withholding taxes were not provided for on a cumulative total of approximately \$133 million of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States. The components of the deferred income tax assets (liabilities) follow (in millions):

	July 31, 1999	July 25 1998
Assets		
Allowance for doubtful accounts and returns	\$225	\$134
Other nondeductible accruals	200	131
Purchased research and development	75	92
Inventory allowances and capitalization	57	68
Depreciation	56	24
Accrued state franchise tax	32	28
Total deferred tax assets	645	477
Liabilities		
Deferred revenue	(5)	(26)
Unrealized gain on investments	(192)	(48)
Total deferred tax liabilities	(197)	(74)
	\$448	\$403

The noncurrent portion of the deferred income tax (liabilities)/assets, which totaled (\$89) million at July 31, 1999, and \$58 million at July 25, 1998, 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 Company receives an income tax benefit calculated as the difference between the market value of the stock issued at the time of exercise and the option price, tax effected.

11. Segment Information and Major Customers

The Company's operations involve the design, development, manufacture, marketing, and technical support of networking products and services. The Company offers end-to-end networking solutions for its customers. Cisco products include routers, LAN and ATM switches, dialup access servers, and network management software. These products, integrated by the Cisco IOS(R) software, link geographically dispersed LANs, WANs, and IBM networks.

The Company conducts business globally and is managed geographically. The Company's management relies on an internal management accounting system. This system includes sales and standard cost information by geographic theater. Sales are attributed to a theater based on the ordering location of the customer. The Company's management makes financial decisions and allocates resources based on the information it receives from this internal system. Information from this internal management system differs from the amounts reported under generally accepted accounting principles due to certain corporate level adjustments. These corporate level adjustments are primarily sales related reserves, credit memos, and returns. Based on the criteria set forth in SFAS No. 131, the Company has four reportable segments: the Americas, EMEA, Asia/Pacific, and Japan.

Summarized financial information by segment for 1999, 1998, and 1997, as taken from the internal management information system discussed above, is as follows (in millions):

	1999	1998	1997

Net sales:			
Americas	\$ 8,069	\$ 5,731	\$ 3,968
EMEA	3,216	2,114	1,551
Asia/Pacific	825	535	453
Japan	566	459	587
Corporate adjustments	(522)	(351)	(107)

Total	\$ 12,154	\$ 8,488	\$ 6,452
=====			
Standard margin(1):			
Americas	\$ 5,836	\$ 4,260	
EMEA	2,380	1,565	
Asia/Pacific	586	395	
Japan	436	340	
Corporate adjustments	(1,324)	(996)	

Total	\$ 7,914	\$ 5,564	
=====			

(1)Standard margin by theater was not tracked by the Company prior to fiscal year 1998.

The standard margins above differ from the amounts recognized under generally accepted accounting principles because the Company does not allocate certain production overhead, manufacturing variances, and other production related costs to the theaters.

Enterprise-wide information is provided in accordance with SFAS 131. Geographic sales information is based on the ordering location of the customer. Property and equipment information is based on the physical location of the assets. The following is net sales and property and equipment information for geographic areas (in millions):

	1999	1998	1997
Net sales:			
U.S.	\$ 7,435	\$ 5,231	\$ 3,615
All other countries	5,241	3,608	2,944
Corporate adjustments	(522)	(351)	(107)
Total	\$ 12,154	\$ 8,488	\$ 6,452
Property and equipment, net:			
U.S.	\$ 687	\$ 527	\$ 412
All other countries	114	72	56
Total	\$ 801	\$ 599	\$ 468

In 1999, 1998, and 1997 no single customer accounted for 10% or more of the Company's net sales.

12. Net Income per Common Share

The following table presents the calculation of basic and diluted net income per common share as required under SFAS 128 (in millions, except per-share amounts):

	1999	1998	1997
Net income	\$2,096	\$1,355	\$1,051
Weighted average shares--basic	3,213	3,094	2,990
Effect of dilutive securities: employee stock options	185	151	138
Weighted average shares--diluted	3,398	3,245	3,128
Net income per common share--basic	\$ 0.65	\$ 0.44	\$ 0.35
Net income per common share--diluted	\$ 0.62	\$ 0.42	\$ 0.34

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and 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 31, 1999 and July 25, 1998, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 1999, 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 10, 1999

Supplementary Financial Data (unaudited)

(in millions, except purchase amounts)

	July 31, 1999	May 1, 1999	Jan. 23, 1999	Oct. 24 1998	July 25, 1998	April 25, 1998	Jan. 24, 1998	Oct. 25, 1997
Net sales	\$3,548	\$3,165	\$2,844	\$2,597	\$2,400	\$2,192	\$2,022	\$1,874
Gross margin	2,297	2,060	1,857	1,700	1,579	1,440	1,324	1,221
Operating income	894	880	483	727	698	275	660	477
Income before provision for income taxes	988	971	564	793	759	328	705	519
Net income	\$ 635(1)	\$ 650	\$ 293(2)	\$ 518(3)	\$ 493(4)	\$ 67(5)	\$ 457	\$ 338(6)
Net income per common share--basic*	\$.19(1)	\$.20	\$.09(2)	\$.16(3)	\$.16(4)	\$.02(5)	\$.15	.11(6)
Net income per common share--diluted*	\$.18(1)	\$.19	\$.09(2)	\$.16(3)	\$.15(4)	\$.02(5)	\$.14	\$.11(6)

* Reflects the 2-for-1 stock split effective June 1999 and the 3-for-2 stock split effective September 1998.

(1) Net income and net income per share include purchased research and development expenses of \$81 million. Pro forma net income and net income per share, excluding this nonrecurring item net of tax, would have been \$727 million and \$0.21, respectively.

(2) Net income and net income per share include purchased research and development expenses of \$349 million. Pro forma net income and net income per share, excluding this nonrecurring item net of tax, would have been \$611 million and \$0.18, respectively.

(3) Net income and net income per share include purchased research and development expenses of \$41 million. Pro forma net income and net income per share, excluding this nonrecurring item net of tax, would have been \$560 million and \$0.17, respectively.

(4) Net income and net income per share include purchased research and development expenses of \$48 million. Pro forma net income and net income per share, excluding this nonrecurring item net of tax, would have been \$525 million and \$0.16, respectively.

(5) Net income and net income per share include purchased research and development expenses of \$419 million. Pro forma net income and net income per share, excluding this nonrecurring item net of tax, would have been \$486 million and \$0.15, respectively.

(6) Net income and net income per share include purchased research and development expenses of \$127 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 \$417 million and \$0.13, 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 two-for-one split effective June 1999 and three-for-two splits effective September 1998 and December 1997:

	1999		1998		1997	
	High	Low	High	Low	High	Low
First quarter	\$34.65	\$21.94	\$18.74	\$15.50	\$14.89	\$11.11
Second quarter	53.34	30.37	20.10	16.19	16.64	12.81
Third quarter	59.37	47.56	24.62	18.87	15.50	10.31
Fourth quarter	67.06	52.18	34.40	23.48	17.86	10.33

The Company has never paid cash dividends on the common stock and has no present plans to do so. There were approximately 29,600 shareholders of record on July 31, 1999.

Directors and Officers

Directors

Carol A. Bartz (3)
Chairman and Chief Executive Officer
Autodesk, Inc.

John T. Chambers (1) (4) (5) (6) (8)
President and Chief Executive Officer
Cisco Systems, Inc.

Mary A. Cirillo (3) (7)
Chief Executive Officer, Global Institutional Services Divisional Board Member, Global Technology and Services Deutsche Bank

James F. Gibbons, Ph.D. (2) (4)
Reid Weaver Dennis Professor of Electrical Engineering and Special Consul for Industrial Relations Stanford University

Edward R. Kozel (7) (8)
Senior Vice President, Corporate Development Cisco Systems, Inc.

James C. Morgan (2)
Chairman and Chief Executive Officer
Applied Materials, Inc.

John P. Morgridge (1) (5) (6) (7)
Chairman of the Board
Cisco Systems, Inc.

Robert L. Puette (2) (3) (4) (5)
President and Chief Executive Officer
Centigram Communications Corp.

Arun Sarin
Chief Executive Officer, USA/Asia Pacific Region Vodafone AirTouch, Plc

Masayoshi Son
President and Chief Executive Officer
SOFTBANK Corp.

Donald T. Valentine (1) (5) (7)
General Partner
Sequoia Capital

Steven M. West (3)
President and Chief Executive Officer
Entera, Inc.

(1) Member of the Executive Committee

(2) Member of the Compensation/Stock Option Committee

(3) Member of the Audit Committee

(4) Member of the Nomination Committee

(5) Member of the Acquisition Committee

(6) Member of the Special Stock Option Committee

(7) Member of the Investment Committee

(8) Member of the Special Acquisition Committee

Officers

Larry R. Carter

Senior Vice President, Finance and Administration Chief Financial Officer and Secretary

John T. Chambers

President and Chief Executive Officer

Gary J. Daichendt

Executive Vice President

Worldwide Operations

Judith Estrin

Senior Vice President, Business Development Chief Technology Officer

Charles H. Giancarlo
Senior Vice President
Small/Medium Business Line of Business

Edward R. Kozel
Senior Vice President, Corporate Development

Donald J. Listwin
Executive Vice President
Service Provider and Consumer Lines of Business Corporate Marketing

Mario Mazzola
Senior Vice President
Enterprise Line of Business

Carl Redfield
Senior Vice President
Manufacturing and Worldwide Logistics
Other Senior Vice Presidents

Douglas C. Allred
Senior Vice President, Customer Advocacy

Barbara Beck
Senior Vice President, Human Resources

Howard S. Charney
Senior Vice President, Office of the President

William G. Conlon
Senior Vice President
Customer Advocacy Global Support Operations

Richard J. Justice
Senior Vice President, Americas

Kevin J. Kennedy
Senior Vice President
Service Provider Line of Business

Clifford B. Meltzer
Senior Vice President/General Manager
Cisco IOS Technologies Division

William R. Nuti
Senior Vice President, EMEA Operations

James Richardson
Senior Vice President

Daniel Scheinman
Senior Vice President, Legal and Government Affairs

Peter Solvik
Senior Vice President, Chief Information Officer

John Thibault
Senior Vice President
Applications Technology Group

Michelangelo Volpi
Senior Vice President
Business Development and Global Alliances

F. Selby Wellman
Senior Vice President/General Manager
InterWorks Business Unit

Shareholder Information
Online Annual Report

We invite you to visit our online interactive annual report at www.cisco.com/annualreport/1999/. In this version you will find our shareholders' letter in multiple languages, a financial section, and additional company and product information. This Web-based report complements our printed report, giving you a comprehensive understanding of Cisco Systems.

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 GmbH (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 Capital, 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.
Cisco Systems Co. (Formerly 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 hereby consent to the incorporation by reference in this annual report on Form 10-K of Cisco Systems, Inc. for the year ended July 31, 1999 of our reports dated August 10, 1999 included in its Registration Statements on Form S-3 (Nos., 333-36197, 333-47191, 333-49141, 333-51089, 333-51487, 333-58533, 333-65867, 333-67789, 333-79941, 333-82945, 333-84663) dated September 23, 1997, March 2, 1998, April 1, 1998, April 27, 1998, April 30, 1998, July 6, 1998, October 19, 1998, November 24, 1998, June 4, 1999, July 15, 1999, August 6, 1999, respectively and included in its Registration Statements on Form S-8 (Nos. File Numbers:33-63331, 33-64283, 33-64283[Post Eff.], 333-02101, 333-05447[Post Eff.], 333-09903, 333-14383, 333-14661, 333-14679, 333-16577, 333-17287, 333-24741, 333-33613, 333-33619, 333-35805, 333-01069[Post Eff.], 33-34849[Post Eff.], 33-40509[Post Eff.], 33-44221[Post Eff.], 33-71860[Post Eff.], 33-87096[Post Eff.], 333-47159, 333-48949, 333-51093, 333-51315, 333-42249[Post Eff], 333-64651, 333-65871, 333-68335, 333-69117, 333-74237, 333-79717, 333-79721, 333-81971, 333-83045, 333-83277, 33-70644, 33-83268, 33-87100, dated October 11, 1995, November 15, 1995, February 20, 1996, April 1, 1996, July 29, 1996, August 9, 1996, October 18, 1996, October 23, 1996, October 23, 1996, November 21, 1996, December 5, 1996, April 8, 1997, August 14, 1997, August 14, 1997, September 17, 1997, December 10, 1997, March 2, 1998, April 13, 1998, April 27, 1998, April 29, 1998, September 28, 1998, September 29, 1998, October 19, 1998, December 3, 1998, December 17, 1998, March 11, 1999, June 1, 1999, June 1, 1999, June 30, 1999, July 16, 1999, July 20, 1999, respectively, relating to the consolidated financial statements and financial statement schedule for the three years ended July 31, 1999 listed in the accompanying index.

/s/ PricewaterhouseCoopers LLP

San Jose, California

September 24, 1999

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 31, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUL 31 1999
PERIOD START	JUL 26 1998
PERIOD END	JUL 31 1999
CASH	827
SECURITIES	9,301
RECEIVABLES	1,269
ALLOWANCES	27
INVENTORY	652
CURRENT ASSETS	4,615
PP&E	1,824
DEPRECIATION	1,023
TOTAL ASSETS	14,725
CURRENT LIABILITIES	3,003
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	5,524
OTHER SE	6,154
TOTAL LIABILITY AND EQUITY	14,725
SALES	12,154
TOTAL REVENUES	12,154
CGS	4,240
TOTAL COSTS	9,170
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	3,316
INCOME TAX	1,220
INCOME CONTINUING	2,096
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,096
EPS BASIC	0.65 ¹
EPS DILUTED	0.62

¹ For purposes of this statement, primary means basic.

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