

CISCO SYSTEMS INC
Form DEF 14A
September 26, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Confidential, for use of the commission only

(as permitted by Rule 14a-6(e)(2))

- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

CISCO SYSTEMS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

Edgar Filing: CISCO SYSTEMS INC - Form DEF 14A

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11

(set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- .. Fee paid previously with preliminary materials.
- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

CISCO SYSTEMS, INC.

September 20, 2005

DEAR CISCO SYSTEMS SHAREHOLDER:

You are cordially invited to attend the Annual Meeting of Shareholders of Cisco Systems, Inc., which will be held at the Santa Clara Convention Center in Exhibit Hall A, located at 5001 Great America Parkway, Santa Clara, California on Tuesday, November 15, 2005, at 10:00 a.m. Pacific Time. You will find a map with directions to the meeting on the outside back cover of the Proxy Statement.

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

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

We look forward to seeing you at the meeting.

John T. Chambers

President and Chief Executive Officer

San Jose, California

YOUR VOTE IS IMPORTANT

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

Table of Contents

CISCO SYSTEMS, INC.

170 West Tasman Drive

San Jose, California 95134-1706

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held November 15, 2005

The Annual Meeting of Shareholders of Cisco Systems, Inc. will be held at the Santa Clara Convention Center in Exhibit Hall A, located at 5001 Great America Parkway, Santa Clara, California on Tuesday, November 15, 2005, at 10:00 a.m. Pacific Time for the following purposes:

1. To elect eleven members of Cisco's Board of Directors;
2. To approve the adoption of the 2005 Stock Incentive Plan;
3. To ratify the appointment of PricewaterhouseCoopers LLP as Cisco's independent registered public accounting firm for the fiscal year ending July 29, 2006;
4. To vote upon three proposals submitted by shareholders, if properly presented at the meeting; and
5. To act upon such other matters as may properly come before the meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The record date for determining those shareholders who will be entitled to notice of, and to vote at, the meeting and at any adjournments or postponements thereof is September 16, 2005. The stock transfer books will not be closed between the record date and the date of the meeting. A list of shareholders entitled to vote at the meeting will be available for inspection at Cisco's principal executive offices at the address listed above.

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

BY ORDER OF THE BOARD OF DIRECTORS

Mark Chandler

Secretary

San Jose, California

September 20, 2005

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PURPOSE OF MEETING</u>	1
<u>VOTING RIGHTS AND SOLICITATION</u>	1
<u>Voting</u>	1
<u>Recommendations of the Board of Directors</u>	1
<u>Voting via the Internet, by Telephone or by Mail</u>	2
<u>Proxy Solicitation Costs</u>	2
<u>PROPOSAL NO. 1 ELECTION OF DIRECTORS</u>	3
<u>General</u>	3
<u>Business Experience of Nominees</u>	3
<u>Corporate Governance</u>	5
<u>Independent Directors</u>	6
<u>Board Committees and Meetings</u>	6
<u>Director Compensation</u>	8
<u>Shareholder Communications with the Board of Directors</u>	9
<u>Recommendation of the Board of Directors</u>	9
<u>PROPOSAL NO. 2 APPROVAL OF THE 2005 STOCK INCENTIVE PLAN</u>	10
<u>General</u>	10
<u>Share Reserve</u>	11
<u>Administration</u>	11
<u>Eligibility and Types of Awards under the New Stock Plan</u>	12
<u>Options</u>	12
<u>Stock Grants</u>	12
<u>Stock Units</u>	13
<u>Stock Appreciation Rights</u>	13
<u>Performance Goals</u>	13
<u>Vesting Acceleration</u>	14
<u>Amendment and Termination</u>	14
<u>New Stock Plan Benefits</u>	14
<u>Federal Income Tax Consequences</u>	14
<u>Equity Compensation Plan Information</u>	16
<u>Recommendation of the Board of Directors</u>	17
<u>PROPOSAL NO. 3 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	18
<u>General</u>	18
<u>Principal Accountant Fees and Services</u>	18
<u>Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm</u>	19
<u>Recommendation of the Board of Directors</u>	19
<u>PROPOSAL NO. 4 SHAREHOLDER PROPOSAL</u>	20
<u>Supporting Statement</u>	20
<u>Cisco's Statement in Opposition to Proposal No. 4</u>	21
<u>Recommendation of the Board of Directors</u>	21
<u>PROPOSAL NO. 5 SHAREHOLDER PROPOSAL</u>	22
<u>Cisco's Statement in Opposition to Proposal No. 5</u>	23
<u>Recommendation of the Board of Directors</u>	23

Table of Contents

	Page
<u>PROPOSAL NO. 6 SHAREHOLDER PROPOSAL</u>	24
<u>Cisco's Statement in Opposition to Proposal No. 6</u>	25
<u>Recommendation of the Board of Directors</u>	26
<u>OWNERSHIP OF SECURITIES</u>	27
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	28
<u>EXECUTIVE COMPENSATION AND RELATED INFORMATION</u>	29
<u>Compensation and Management Development Committee Report</u>	29
<u>Compensation Committee Interlocks and Insider Participation</u>	31
<u>Summary of Cash and Certain Other Compensation</u>	32
<u>Stock Options</u>	33
<u>Option Exercises and Holdings</u>	34
<u>Employment Contracts, Termination of Employment, and Change in Control Agreements</u>	34
<u>STOCK PERFORMANCE GRAPH</u>	35
<u>AUDIT COMMITTEE REPORT</u>	36
<u>SHAREHOLDER PROPOSALS FOR 2006 ANNUAL MEETING OF SHAREHOLDERS</u>	37
<u>SHAREHOLDERS SHARING THE SAME ADDRESS</u>	37
<u>FORM 10-K</u>	38
<u>OTHER MATTERS</u>	38
<u>DIRECTIONS TO THE SANTA CLARA CONVENTION CENTER</u>	See outside back cover

Table of Contents

CISCO SYSTEMS, INC.

170 West Tasman Drive

San Jose, California 95134-1706

PROXY STATEMENT

FOR

ANNUAL MEETING OF SHAREHOLDERS

These proxy materials are provided in connection with the solicitation of proxies by the Board of Directors of Cisco Systems, Inc., a California corporation, for the Annual Meeting of Shareholders to be held at 10:00 a.m. Pacific Time on Tuesday, November 15, 2005, at the Santa Clara Convention Center in Exhibit Hall A, located at 5001 Great America Parkway, Santa Clara, California, and at any adjournments or postponements of the meeting. These proxy materials were first mailed on or about September 26, 2005 to all shareholders entitled to vote at the meeting.

PURPOSE OF MEETING

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

VOTING RIGHTS AND SOLICITATION

Voting

Only shareholders of record of Cisco common stock on September 16, 2005, the record date, will be entitled to vote at the meeting. Each shareholder of record will be entitled to one vote on each matter for each share of common stock held on the record date. On the record date, there were 6,275,163,194 shares of common stock outstanding. A majority of the outstanding shares of common stock must be present or represented by proxy at the meeting in order to have a quorum. Please note that banks and brokers that have not received voting instructions from their clients cannot vote on their clients' behalf on non-routine proposals, such as the proposal to approve the adoption of the 2005 Stock Incentive Plan, but may vote their clients' shares on other proposals. In the event that a broker, bank, custodian, nominee or other record holder of Cisco common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, referred to as a broker non-vote, then those shares will not be considered entitled to vote with respect to that matter. However, abstentions and broker non-votes will be treated as shares present for the purpose of determining the presence of a quorum for the transaction of business at the meeting. In the election of directors, the eleven nominees receiving the highest number of affirmative votes will be elected. Proposal Nos. 2, 3, 4, 5 and 6 require the approval of the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the meeting, together with the affirmative vote of a majority of the required quorum. Abstentions and broker non-votes could prevent approval of a proposal where the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the

Edgar Filing: CISCO SYSTEMS INC - Form DEF 14A

required quorum. If the persons present or represented by proxy at the meeting constitute the holders of less than a majority of the outstanding shares of common stock as of the record date, the meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum. The inspector of elections appointed for the meeting will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Recommendations of the Board of Directors

Cisco's Board of Directors recommends that you vote **FOR** each of the nominees of the Board of Directors (Proposal No. 1), **FOR** the approval of the adoption of the 2005 Stock Incentive Plan (Proposal No. 2), **FOR** the

Table of Contents

ratification of the appointment of PricewaterhouseCoopers LLP as Cisco's independent registered public accounting firm for the fiscal year ending July 29, 2006 (Proposal No. 3), and **AGAINST** each of the three proposals submitted by shareholders (Proposals Nos. 4, 5 and 6).

Voting via the Internet, by Telephone or by Mail

Shareholders whose shares are registered in their own names may vote via the Internet, by telephone or by mailing a completed proxy card as an alternative to voting in person at the meeting. Instructions for voting via the Internet or by telephone are set forth on the enclosed proxy card. To vote by mailing a proxy card, sign and return the enclosed proxy card in the enclosed prepaid and addressed envelope, and your shares will be voted at the meeting in the manner you direct. In the event that you return a signed proxy card on which no directions are specified, your shares will be voted **FOR** each of the nominees of the Board of Directors (Proposal No. 1), **FOR** the approval of the adoption of the 2005 Stock Incentive Plan (Proposal No. 2), **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as Cisco's independent registered public accounting firm for the fiscal year ending July 29, 2006 (Proposal No. 3), **AGAINST** each of the three proposals submitted by shareholders (Proposals Nos. 4, 5 and 6), and in the discretion of the proxy holders as to any other matters that may properly come before the annual meeting.

If your shares are registered in the name of a bank or brokerage firm you will receive instructions from your holder of record that must be followed in order for the record holder to vote the shares per your instructions. Many banks and brokerage firms have a process for their beneficial holders to provide instructions over the phone or via the Internet. If Internet or telephone voting is unavailable from your bank or brokerage firm, please complete and return the enclosed voting instruction card in the addressed, postage paid envelope provided. If you hold shares through a bank or brokerage firm and wish to be able to vote in person at the meeting, you must obtain a legal proxy from your broker, bank or other holder of record and present it to the inspector of elections with your ballot. Shareholders who elected to receive the 2005 Proxy Statement and Annual Report to Shareholders over the Internet will be receiving an e-mail on or about October 7, 2005 with information on how to access shareholder information and instructions for voting.

You may revoke or change a previously delivered proxy at any time before the meeting by delivering another proxy with a later date or by delivering written notice of revocation of your proxy to Cisco's Secretary at Cisco's principal executive offices before the beginning of the meeting. You may also revoke your proxy by attending the meeting and voting in person, although attendance at the meeting will not in and of itself revoke a valid proxy that was previously delivered. If you hold shares through a bank or brokerage firm, you must contact that firm to revoke any prior voting instructions. You may also vote in person at the annual meeting if you obtain a legal proxy as described in the preceding paragraph.

Proxy Solicitation Costs

Cisco will bear the entire cost of this solicitation of proxies, including the preparation, assembly, printing, and mailing of this Proxy Statement, the proxy, and any additional solicitation material that Cisco may provide to shareholders. Copies of solicitation material will be provided to brokerage firms, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation material to such beneficial owners. In addition, Cisco has retained Georgeson Shareholder Communications, Inc. to act as a proxy solicitor in conjunction with the meeting. Cisco has agreed to pay that firm \$17,500, plus reasonable out of pocket expenses, for proxy solicitation services. The original solicitation of proxies by mail may be supplemented by solicitation by telephone, telegram and other means by directors, officers and employees of Cisco. No additional compensation will be paid to these individuals for any such services.

Table of Contents**PROPOSAL NO. 1****ELECTION OF DIRECTORS****General**

The names of persons who are nominees for director and their positions and offices with Cisco are set forth in the table below. The proxy holders intend to vote all proxies received by them for the nominees listed below unless otherwise instructed. The authorized number of directors is presently thirteen, and effective immediately prior to the annual meeting the authorized number of directors is being reduced to eleven.

Each of the current directors, other than Donald T. Valentine and Dr. James F. Gibbons, has been nominated for election by the Board of Directors upon recommendation by the Nomination and Governance Committee and has decided to stand for re-election. Mr. Valentine and Dr. Gibbons were not eligible to be renominated for election under Cisco's age limit policy adopted in July 2005. The policy provides that no individual will be eligible to be nominated or renominated for election to the Board of Directors after his or her 70th birthday, provided that in the case of John P. Morgridge, the current Chairman of the Board, this policy shall take effect for nominations for Cisco's 2006 Annual Meeting of Shareholders. Both Mr. Valentine and Dr. Gibbons intend to serve on the Board of Directors through the date of the annual meeting.

Richard M. Kovacevich was appointed to the Board of Directors in January 2005 upon the recommendation of the Nomination and Governance Committee. Mr. Kovacevich was brought to the attention of the Nomination and Governance Committee as a candidate by one of Cisco's independent, non-management directors.

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

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

Business Experience of Nominees

Ms. Bartz, 57, has been a member of the Board of Directors since November 1996. Since April 1992, she has served as Chairman of the Board and Chief Executive Officer of Autodesk, Inc. Prior to that, she was employed by Sun Microsystems, Inc. from 1983 to April 1992. Ms. Bartz also currently serves on the board of directors of Network Appliance, Inc.

Table of Contents

Ms. Burns, 47, has been a member of the Board of Directors since November 2003. She has been Executive Vice President, Chief Financial Officer and Chief Restructuring Officer of Mirant Corporation since May 2004. From August 2000 to April 2004, she served as Executive Vice President and Chief Financial Officer of Delta Air Lines, Inc., which in September 2005 filed for protection under Chapter 11 of the United States Bankruptcy Code. From January 1999 to August 2000 she held various positions in Delta's finance and tax departments. Prior to that, Ms. Burns was a partner at Arthur Andersen LLP from 1991 to January 1999. Ms. Burns also currently serves on the board of directors of Wal-Mart Stores, Inc.

Mr. Carter, 62, has been a member of the Board of Directors since July 2000. He joined Cisco in January 1995 as Vice President of Finance and Administration, Chief Financial Officer and Secretary. In July 1997, he was promoted to Senior Vice President of Finance and Administration, Chief Financial Officer and Secretary. In May 2003, upon his retirement as Chief Financial Officer and Secretary, he was appointed Senior Vice President, Office of the President. Before joining Cisco, he was employed by Advanced Micro Devices, Inc. as Vice President and Corporate Controller. Mr. Carter also currently serves on the board of directors of QLogic Corporation.

Mr. Chambers, 56, has been a member of the Board of Directors since November 1993. He joined Cisco as Senior Vice President in January 1991 and was promoted to Executive Vice President in June 1994. Mr. Chambers was promoted to President and Chief Executive Officer of Cisco as of January 31, 1995. Before joining Cisco, he was employed by Wang Laboratories, Inc. for eight years, where, in his last role, he was the Senior Vice President of U.S. Operations.

Dr. Hennessy, 52, has been a member of the Board of Directors since January 2002. He has been President of Stanford University since September 2000. He served as Provost of Stanford from June 1999 to August 2000, Dean of the Stanford University School of Engineering from June 1996 to June 1999, and Chair of the Stanford University Department of Computer Science from September 1994 to March 1996. Dr. Hennessy also currently is the Chairman of the Board of Atheros Communications, Inc. and serves on the board of directors of Google Inc.

Mr. Kovacevich, 61, has been a member of the Board of Directors since January 2005. He has served as Chief Executive Officer of Wells Fargo & Company since November 1998, and became Chairman of the Board of Wells Fargo & Company in April 2001. He also served as President of Wells Fargo & Company from November 1998 to July 2005. From January 1993 to November 1998, he served as Chief Executive Officer of Norwest Corporation, which merged with Wells Fargo & Company in November 1998. During that time he also served as President of Norwest Corporation from January 1993 through January 1997 and as Chairman of the Board of Norwest Corporation from May 1995 to November 1998. He became a member of the board of directors of Norwest Corporation in 1986. Mr. Kovacevich also currently serves on the board of directors of Target Corporation.

Mr. McGeary, 55, has been a member of the Board of Directors since July 2003. He has served as Chairman of the Board of BearingPoint, Inc. since November 2004. From November 2004 to March 2005, he also served as interim Chief Executive Officer of BearingPoint, Inc. Mr. McGeary served as Chief Executive Officer of Briencc, Inc. from July 2000 to July 2002. From April 2000 to June 2000 he served as a Managing Director of KPMG Consulting LLC, a wholly owned subsidiary of BearingPoint, Inc. (formerly KPMG Consulting, Inc.). From August 1999 to April 2000 he served as Co-President and Co-Chief Executive Officer of BearingPoint, Inc. From January 1997 to August 1999 he was employed by KPMG LLP as its Co-Vice Chairman of Consulting. Prior to 1997 he served in several capacities with KPMG LLP, including audit partner for technology clients. Mr. McGeary is a Certified Public Accountant and holds a B.S. degree in Accounting from Lehigh University. Mr. McGeary also currently serves on the board of directors of BroadVision, Inc.

Mr. Morgan, 67, has been a member of the Board of Directors since January 1998. He has served as Chairman of the Board of Applied Materials, Inc. since 1987. From 1977 to April 2003 he served as Chief

Table of Contents

Executive Officer of Applied Materials, Inc. He was previously a senior partner with WestVen Management, a private venture capital partnership affiliated with Bank of America Corporation.

Mr. Morgridge, 72, joined Cisco as President and Chief Executive Officer and was elected to the Board of Directors in October 1988. Mr. Morgridge became Chairman of the Board on January 31, 1995, upon his retirement from the positions of President and Chief Executive Officer of Cisco.

Mr. West, 50, has been a member of the Board of Directors since April 1996. He is a founder and partner of Emerging Company Partners, which was formed in January 2004. Mr. West served as Chief Operating Officer of nCUBE Corporation, a provider of on-demand media systems, from December 2001 to July 2003. Prior to joining nCUBE, he was the President and Chief Executive Officer of Entera, Inc. from September 1999 until it was acquired by Blue Coat Systems, Inc. (formerly CacheFlow Inc.) in January 2001. From June 1996 to September 1999, he was President and Chief Executive Officer of Hitachi Data Systems, a joint venture computer hardware services company owned by Hitachi, Ltd. and Electronic Data Systems Corporation. Prior to that, Mr. West was at Electronic Data Systems Corporation from November 1984 to June 1996.

Mr. Yang, 36, has been a member of the Board of Directors since July 2000. He is a founder of Yahoo! Inc., and since March 1995 has been an executive of Yahoo! Inc. and has served as a member of its board of directors.

Corporate Governance

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

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

The Board of Directors has adopted clear corporate governance policies;

A majority of the board members are independent of Cisco and its management;

All members of the key board committees—the Audit Committee, the Compensation and Management Development Committee, and the Nomination and Governance Committee—are independent;

The independent members of the Board of Directors meet regularly without the presence of management;

Edgar Filing: CISCO SYSTEMS INC - Form DEF 14A

Cisco has a clear code of business conduct that is monitored by its ethics office and is annually affirmed by its employees;

The charters of the board committees clearly establish their respective roles and responsibilities;

Cisco has an ethics office with a hotline available to all employees, and Cisco's Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal accounting controls, or auditing matters;

Cisco has adopted a code of ethics that applies to its principal executive officer and all members of its finance department, including the principal financial officer and principal accounting officer; and

Cisco's internal audit control function maintains critical oversight over the key areas of its business and financial processes and controls, and reports directly to Cisco's Audit Committee.

Table of Contents**Independent Directors**

The Board of Directors has affirmatively determined that each member of the Board of Directors other than Mr. Carter, Mr. Chambers and Mr. Morgridge is independent under the criteria established by NASDAQ for independent board members. In addition, the Board of Directors has determined that the members of the Audit Committee meet the additional independence criteria required for audit committee membership. Ms. Bartz presides over regular meetings of the independent directors.

Board Committees and Meetings

During Cisco's fiscal year ended July 30, 2005, the Board of Directors held seven meetings. During this period, all of the incumbent directors attended or participated in more than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which each such director served, during the period for which each such director served. Cisco's directors are strongly encouraged to attend the annual meeting of shareholders. Nine of Cisco's directors attended last year's annual meeting.

Cisco has six standing committees: the Acquisition Committee, the Audit Committee, the Compensation and Management Development Committee, the Investment/Finance Committee, the Nomination and Governance Committee and the Technology Committee. Each of these committees has a written charter approved by the Board of Directors. A copy of each charter can be found under the Investor Relations section of our website at www.cisco.com. The members of the committees are identified in the following table.

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

Acquisition Committee

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

Table of Contents

Audit Committee

The Audit Committee is responsible for reviewing the financial information which will be provided to shareholders and others, reviewing the system of internal controls which management and the Board of Directors have established, appointing, retaining and overseeing the performance of the independent registered public accounting firm, overseeing Cisco's accounting and financial reporting processes and the audits of Cisco's financial statements, and pre-approving audit and permissible non-audit services provided by the independent registered public accounting firm. This committee held eleven meetings during the last fiscal year. The Board of Directors has determined that each of Ms. Burns and Mr. McGeary is an audit committee financial expert as defined in Item 401(h) of Regulation S-K. Each member of this committee is an independent director and meets each of the other requirements for audit committee members under applicable NASDAQ listing standards.

Compensation and Management Development Committee

The Compensation and Management Development Committee's (the Compensation Committee) basic responsibility is to review the performance and development of Cisco's management in achieving corporate goals and objectives and to assure that Cisco's senior executives are compensated effectively in a manner consistent with Cisco's strategy, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, this committee oversees, reviews and administers all of Cisco's compensation, equity and employee benefit plans and programs. This committee held seven meetings during the last fiscal year. Each member of this committee is an independent director under applicable NASDAQ listing standards, an outside director as defined in Section 162(m) of the Internal Revenue Code and a non-employee director as defined in Rule 16b-3 under the Securities Exchange Act of 1934.

Investment/Finance Committee

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

Nomination and Governance Committee

The Nomination and Governance Committee is responsible for overseeing, reviewing and making periodic recommendations concerning Cisco's corporate governance policies, and for recommending to the full Board of Directors candidates for election to the Board of Directors. This committee held four meetings during the last fiscal year. Each member of this committee is an independent director under applicable NASDAQ listing standards.

Nominees for the Board of Directors should be committed to enhancing long-term shareholder value and must possess a high level of personal and professional ethics, sound business judgment and integrity. The Board of Directors' policy is to encourage selection of directors who will contribute to Cisco's overall corporate goals: responsibility to its shareholders, technology leadership, effective execution, high customer satisfaction and superior employee working environment. The Nomination and Governance Committee may from time to time review the appropriate skills and characteristics required of board members, including such factors as business experience, diversity, and personal skills in technology, finance, marketing, international business, financial reporting and other areas that are expected to contribute to an effective Board of

Edgar Filing: CISCO SYSTEMS INC - Form DEF 14A

Directors. In evaluating potential candidates for the Board of Directors, the Nomination and Governance Committee considers these factors in the light of the specific needs of the Board of Directors at that time.

Table of Contents

In recommending candidates for election to the Board of Directors, the Nomination and Governance Committee considers nominees recommended by directors, officers, employees, shareholders and others, using the same criteria to evaluate all candidates. The Nomination and Governance Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Upon selection of a qualified candidate, the Nomination and Governance Committee would recommend the candidate for consideration by the full Board of Directors. The Nomination and Governance Committee may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees. To recommend a prospective nominee for the Nomination and Governance Committee's consideration, submit the candidate's name and qualifications to Cisco's Secretary in writing to the following address: Cisco Systems, Inc., Attn: Secretary, 170 West Tasman Drive, San Jose, California 95134, with a copy to Cisco Systems, Inc., Attn: General Counsel at the same address. When submitting candidates for nomination to be elected at the Company's annual meeting of shareholders, shareholders must also follow the notice procedures and provide the information required by Cisco's bylaws.

In particular, for the Nominating and Governance Committee to consider a candidate recommended by a shareholder for nomination at the 2006 Annual Meeting of Shareholders, the recommendation must be delivered or mailed to and received by Cisco's Secretary between June 28, 2006 and July 28, 2006 (or, if the 2006 annual meeting is not held within 30 days of the anniversary of the date of the 2005 annual meeting, within 10 days after Cisco's public announcement of the date of the 2006 annual meeting). The recommendation must include the information specified in Cisco's bylaws, including the following:

The shareholder's name and address and the beneficial owner, if any, on whose behalf the nomination is proposed;

The shareholder's reason for making the nomination at the annual meeting, and the signed consent of the nominee to serve if elected;

The number of shares owned by, and any material interest of, the record owner and the beneficial owner, if any, on whose behalf the record owner is proposing the nominee;

A description of any arrangements or understandings between the shareholder, the nominee and any other person regarding the nomination; and

Information regarding the nominee that would be required to be included in Cisco's proxy statement by the rules of the Securities and Exchange Commission, including the nominee's age, business experience for the past five years and any other directorships held by the nominee.

Technology Committee

The Technology Committee is responsible for reviewing Cisco's technology development and strategic opportunities, including in the context of Cisco's long term strategic planning in both new and existing businesses and markets. This committee held one meeting during the last fiscal year.

Director Compensation

Edgar Filing: CISCO SYSTEMS INC - Form DEF 14A

During the 2005 fiscal year, non-employee directors were each paid a \$75,000 regular annual retainer fee for serving on the Board of Directors for the year of board service beginning upon election at the 2004 Annual Meeting of Shareholders, except that Mr. Kovacevich, whose period of board service did not commence until January 19, 2005, was paid \$62,500. The chair of the Audit Committee received an additional annual retainer of \$25,000, the chair of the Compensation Committee received an additional annual retainer of \$10,000 and each non-employee member of each standing committee received an additional fee of \$2,000 per meeting attended. During the 2005 fiscal year, non-employee directors were eligible to participate in the Discretionary Option Grant Program in effect under the 1996 Stock Incentive Plan and to receive periodic option grants under the

Table of Contents

Automatic Option Grant Program in effect under the 1996 Stock Incentive Plan. Non-employee directors were also reimbursed for their expenses in attending meetings.

On November 18, 2004, the date of the last annual meeting of shareholders, each of the following non-employee directors re-elected to the Board of Directors received option grants under the 1996 Stock Incentive Plan for 20,000 shares of common stock with an exercise price of \$19.52 per share: Ms. Bartz, Ms. Burns, Dr. Gibbons, Dr. Hennessy, Mr. McGeary, Mr. Morgan, Mr. Valentine, Mr. West and Mr. Yang. The shares subject to these options vest in two equal annual installments upon the completion of each year of board service. Mr. Kovacevich received initial option grants under the 1996 Stock Incentive Plan for 50,000 shares upon his appointment to the Board of Directors on January 19, 2005, with an exercise price of \$18.15 per share. The shares subject to these options vest in four equal annual installments upon the completion of each year of board service. The exercise price for each option is equal to the closing selling price per share of common stock on the grant date. Each option has a term of nine years measured from the grant date, subject to earlier termination following the optionee's cessation of board service. Each option is immediately exercisable for all of the shares underlying the option; however, any shares so purchased that remain unvested at the time of the optionee's cessation of board service will be subject to Cisco's right to repurchase those shares, at the option exercise price paid per share. Shares underlying the options vest immediately in full upon certain changes in control or ownership of Cisco or upon the optionee's death or disability while a member of the Board of Directors.