CISCO SYSTEMS, INC.

FORM 8-K
(Current report filing)

Filed 11/04/09 for the Period Ending 11/04/09

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

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): November 4, 2009

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation)

0-18225
(Commission File Number)

77-0059951
(IRS Employer Identification No.)

170 West Tasman Drive, San Jose, California
(Address of principal executive offices)

95134-1706
(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On November 4, 2009, Cisco Systems, Inc. (the "Registrant") reported its results of operations for its fiscal first quarter 2010 ended October 24, 2009. A copy of the press release issued by the Registrant concerning the foregoing results is furnished herewith as Exhibit 99.1. In addition, the transcript of a video of the Registrant's Chief Financial Officer discussing first quarter results is furnished herewith as Exhibit 99.2.

The information contained herein and in the accompanying exhibits shall not be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference to such filing. The information in this report, including the exhibits hereto, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

The attached exhibits include non-GAAP net income, non-GAAP net income per share data, non-GAAP shares used in net income per share calculation and non-GAAP inventory turns.

These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. The Registrant believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Registrant's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Registrant's results of operations in conjunction with the corresponding GAAP measures.

The Registrant believes that the presentation of non-GAAP net income, non-GAAP net income per share data and non-GAAP shares used in net income per share calculation, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. In addition, the Registrant believes that the presentation of non-GAAP inventory turns provides useful information to investors and management regarding financial and business trends relating to inventory management based on the operating activities of the period presented.

For its internal budgeting process, the Registrant's management uses financial statements that do not include, when applicable, share-based compensation expense, amortization of acquisition-related intangible assets, other acquisition-related costs, enhanced early retirement benefits, the income tax effects of the foregoing, significant effects of retroactive tax legislation, and significant transfer pricing adjustments related to share-based compensation. The Registrant's management also uses the foregoing non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the financial results of the Registrant. In prior periods, the Registrant has excluded other items that it no longer excludes for purposes of its non-GAAP financial measures; for example, effective in the third quarter of fiscal 2009, the Registrant no longer excludes payroll tax on stock option exercises, and effective in fiscal 2010 Cisco no longer excludes in-process research and development as it is no longer expensed as a result of new accounting guidance. From time to time in the future, there may be other items that the Registrant may exclude for purposes of its internal budgeting process and in reviewing the financial results of the Registrant.

As described above, the Registrant excludes the following items from one or more of its non-GAAP measures when applicable:

Share-based compensation expense . These expenses consist primarily of expenses for employee stock options, employee stock purchase rights, employee restricted stock and employee restricted stock units, including such expenses associated with acquisitions. The Registrant excludes share-based compensation expenses from its non-GAAP measures primarily because they are non-cash expenses that the Registrant does not believe are reflective of ongoing operating results. Further, the Registrant believes that it is useful to investors to understand the impact of share-based compensation to its results of operations.

Amortization of acquisition-related intangible assets . The Registrant incurs amortization of intangible assets (which may include impairment charges from the write-downs of purchased intangible assets) in connection with acquisitions. The Registrant excludes these items because these expenses are not reflective of ongoing operating results in the period incurred. These amounts arise from the Registrant's prior acquisitions and have no direct correlation to the operation of the Registrant's business.

Other acquisition-related costs . In connection with its business combinations, the Registrant incurs compensation expenses, as well as professional fees and other direct expenses such as restructuring activities related to the acquired company. In addition, from time to time the Registrant enters into foreign currency transactions related to pending acquisitions, and may incur gains or losses on such transactions. The Registrant excludes such compensation expense, fees, other direct expenses, and gains and losses, as they are primarily related to acquisitions and have no direct correlation to the operation of the Registrant's business.

Enhanced early retirement benefits. The Registrant excluded expenses related to an enhanced early retirement program, in the fourth quarter of fiscal 2009. The Registrant excludes these expenses because the Registrant does not believe they are reflective of ongoing business and operating results.

Income tax effects of the foregoing . This amount is used to present each of the amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

Significant effects of retroactive tax legislation. The Registrant is subject to changes in tax legislation which have retroactive effects. The Registrant excludes such significant effects of retroactive tax legislation because this item is unrelated to the Registrant's current ongoing business and operating results.

Significant transfer pricing adjustments related to share-based compensation . During the Registrant's fourth quarter of fiscal 2009, the U.S. Court of Appeals for the Ninth Circuit overturned a 2005 U.S. Tax Court ruling. The decision changes the tax treatment of share-based compensation expenses for the purpose of determining intangible development costs under a company's research and development cost sharing arrangement. While Cisco was not a named party to the case, the decision resulted in a change in Cisco's tax benefits recognized in its financial statements. The Registrant excluded a related tax charge because it was unrelated to its current ongoing business and operating results.

From time to time in the future, there may be other items that the Registrant may exclude if it believes that doing so is consistent with the goal of providing useful information to investors and management.

The Registrant will incur share-based compensation expense, amortization of acquisition-related intangible assets, and other acquisition-related costs, in future periods. The Registrant may be subject to significant effects of retroactive tax legislation to the extent that any such legislation becomes effective retroactively in future periods. Enhanced early retirement benefit expenses are an unusual occurrence. The Registrant could experience significant transfer pricing adjustments related to share-based compensation to the extent that any court rulings or other guidance impacts this area in future periods.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CISCO SYSTEMS, INC.

Dated: November 4, 2009

By: /s/ Frank A. Calderoni
Name: Frank A. Calderoni
Title: Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
99.1	Press Release of Registrant, dated November 4, 2009, reporting the results of operations for the Registrant's fiscal first quarter ended October 24, 2009.
99.2	Transcript of video of the Registrant's Chief Financial Officer discussing the results of operations for the Registrant's fiscal first quarter ended October 24, 2009.

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CISCO REPORTS FIRST QUARTER EARNINGS

Announces $10 Billion Increase in Stock Repurchase Program

- **Q1 Net Sales:** $9.0 billion (decrease of 13% year over year)
- **Q1 Net Income:** $1.8 billion GAAP; $2.1 billion non-GAAP
- **Q1 Earnings per Share:** $0.30 GAAP (decrease of 19% year over year); $0.36 non-GAAP (decrease of 14% year over year)
- **Total Cash, Cash Equivalents and Investments:** $35.4 billion

SAN JOSE, Calif. – November 4, 2009 – Cisco, the worldwide leader in networking that transforms how people connect, communicate and collaborate, today reported its first quarter results for the period ended October 24, 2009. Cisco reported first quarter net sales of $9.0 billion, net income on a generally accepted accounting principles (GAAP) basis of $1.8 billion or $0.30 per share, and non-GAAP net income of $2.1 billion or $0.36 per share.

Commenting on the quarter, Chairman and Chief Executive Officer John Chambers noted, "Building off what we saw as a clear tipping point in Q4, our Q1 results continued to reflect strong sequential growth trends that meet or exceed expectations during normal economic times. We view the improving economic outlook, combined with solid execution on our growth strategy, as creating unparalleled opportunity to drive more value into the core of the network. Simply said, we believe that key market transitions across collaboration, virtualization and video will drive productivity and growth in network loads for the next decade, and are evolving even faster than expected."

Chambers continued, "Our ability to launch four proposed acquisitions, the ecosystem-shifting coalition with EMC/VMware, and five new products and industry solutions into the Cisco pipeline in the past few months alone underscore this momentum. Our build – buy - partner innovation engine is clearly running on all cylinders, while our operational machine is pulling costs out of the business even as we scale new models for growth. Execution and results over time will demonstrate the long-term impact of this vision and strategy— but a new model of productivity based on collaboration is clearly emerging and we believe this may be the most profound opportunity for businesses in our 25 years as a company."

GAAP Results

	Q1 2010	Q1 2009	Vs. Q1 2009
Net Sales	$9.0 billion	$10.3 billion	-12.7%
Net Income	$1.8 billion	$ 2.2 billion	-18.8%
Earnings per Share	$ 0.30	$ 0.37	-18.9%

Non-GAAP Results

	Q1 2010	Q1 2009	Vs. Q1 2009
Net Income	$2.1 billion	$2.5 billion	-15.3%
Earnings per Share	$ 0.36	$ 0.42	-14.3%

In October 2009, the Financial Accounting Standards Board issued new accounting guidance related to revenue recognition. Cisco elected to adopt this accounting guidance early on a prospective basis for transactions originating or materially modified in the first quarter of fiscal 2010. Net sales for the first quarter of fiscal 2010 were approximately $50 million higher than the net sales that would have been recorded under the previous accounting guidance.

A reconciliation between net income on a GAAP basis and non-GAAP net income is provided in the table on page 6.

Cisco will discuss first quarter results and business outlook on a conference call and webcast at 1:30 p.m. Pacific Time today. Call information and related charts are available at http://www.cisco.com/go/investors. A Q&A session with Cisco's Chairman and CEO John Chambers and CFO Frank Calderoni will also be available at http://newsroom.cisco.com. To view a video of Cisco's CFO discussing first quarter results, visit http://blogs.cisco.com.

Stock Repurchase Program Expanded

Cisco also announced that on November 4, 2009 its board of directors authorized up to $10 billion in additional repurchases of its common stock. Cisco's board had previously authorized up to $62 billion in stock repurchases. There is no fixed termination date for the repurchase program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately $13.1 billion.

Other Financial Highlights

- Cash flows from operations were $1.5 billion for the first quarter of fiscal 2010, compared with $2.7 billion for the first quarter of fiscal 2009, and compared with $2.0 billion for the fourth quarter of fiscal 2009.
- Cash and cash equivalents and investments were $35.4 billion at the end of the first quarter of fiscal 2010, compared with $35.0 billion at the end of fiscal 2009.

- During the first quarter of fiscal 2010, Cisco repurchased 76 million shares of common stock under the stock repurchase program at an average price of $22.99 per share for an aggregate purchase price of $1.8 billion. As of October 24, 2009, Cisco had repurchased and retired 2.9 billion shares of Cisco common stock at an average price of $20.47 per share for an aggregate purchase price of approximately $58.9 billion since the inception of the stock repurchase program.
- Days sales outstanding in accounts receivable (DSO) at the end of the first quarter of fiscal 2010 were 32 days, compared with 34 days at the end of the fourth quarter of fiscal 2009, and compared with 29 days at the end of the first quarter of fiscal 2009.
- Inventory turns on a GAAP basis were 11.6 in the first quarter of fiscal 2010, compared with 11.7 in the fourth quarter of fiscal 2009, and compared with 11.9 in the first quarter of fiscal 2009. Non-GAAP inventory turns were 11.3 in the first quarter of fiscal 2010, compared with 11.3 in the fourth quarter of fiscal 2009, and compared with 11.6 in the first quarter of fiscal 2009.

“Cisco’s strong first quarter results represent two quarters of sequentially positive revenue growth and demonstrate our ability to execute on our innovation and operational excellence priorities,” said Frank Calderoni, Cisco chief financial officer. “We delivered earnings per share on a GAAP basis of $0.30 and non-GAAP of $0.36, which were above our expectations, driven by balance across a broad portfolio and intense focus on execution. Our results validate our strategy and portfolio approach of balancing disciplined expense management with strategic investment, to drive continued profitability through varying economic environments.”

Cisco Innovation

- Cisco expanded its Cisco TelePresence™ portfolio with the single-screen, single-camera Cisco TelePresence System 1100 for multipurpose rooms. Service providers AT&T, BT, Orange, NTT, Tata Communications, Telefonica, Telstra and Telmex have announced commercial intercompany Cisco TelePresence service offerings.
- Cisco announced its Borderless Networks Architecture strategy, together with announcing its new Integrated Services Router Generation 2 (ISR G2), which helps businesses and service providers simplify and scale delivery of on-demand, networked business services such as video and collaborative applications.
- Cisco launched Cisco IronPort™ Web Usage Controls, a product designed to provide real-time content categorization to accurately identify up to 90 percent of “dark web” sites in the most egregious content categories.
- Cisco and salesforce.com announced the Customer Interaction Cloud, a combined solution that uses a connector to integrate salesforce.com's Service Cloud 2 with Cisco ® Unified Contact Center's functionality, empowering small and medium-sized companies to run their customer service function completely in the cloud.
- Cisco announced the creation of a Smart Grid Ecosystem, with more than 25 initial partners, to facilitate the adoption of Internet Protocol (IP)-based communications standards for smart grids designed to benefit the energy industry as well as business and residential customers. Cisco also created a Smart Grid Technical Advisory Board made up of leading innovative utility and energy companies from around the world.

Select Customer Announcements

- Tutor Perini Corporation, a leading civil and building construction company, is consolidating five data centers into one new facility which utilizes the Cisco Unified Computing System™ as its computing platform.
- The Miami Dolphins National Football League franchise announced the deployment of Cisco TelePresence and Cisco StadiumVision™ systems to help fans "Live the Game" at Miami’s Land Shark Stadium.

- Kenya's Ministry of Information and Communications Technology launched the first network-enabled Pilot Pasha Centre in Kangundo with the aim of enhancing the livelihoods of local citizens and encouraging new micro-enterprises.
- Cisco and Gale International expanded their relationship on Smart + Connected Communities under development in Korea's Songdo International Business District, with the aim of creating a repeatable model for smart, sustainable cities of the future.
- German electricity company Yello Strom launched an energy-saving smart grid pilot to create an intelligent energy system that communicates over an IP network.

Select Acquisitions and Investments

- Cisco announced a definitive agreement to acquire Starent Networks, Corp., a leading supplier of IP-based mobile infrastructure solutions targeting mobile and converged carriers.
- Cisco announced a definitive agreement for Cisco to launch a recommended voluntary cash offer to acquire TANDBERG ASA, a global leader in video communications.

Editor's Note:

- Q1 FY 2010 conference call to discuss Cisco's results along with its business outlook will be held at 1:30 p.m. Pacific Time, Wednesday, November 4, 2009. Conference call number is 888-848-6507 (United States) or 212-519-0847 (international).
- Conference call replay will be available from 4:00 p.m. Pacific Time, November 4, 2009 to 4:00 p.m. Pacific Time, November 11, 2009 at 866-357-4205 (United States) or 203-369-0122 (international). The replay also will be available via webcast from November 4, 2009 through January 15, 2010 on the Cisco Investor Relations website at http://www.cisco.com/go/investors.
- Additional information regarding Cisco's financials, as well as a webcast of the conference call with visuals designed to guide participants through the call, will be available at 1:30 p.m. Pacific Time, November 4, 2009. Text of the conference call's prepared remarks will be available within 24 hours of completion of the call. The webcast will include both the prepared remarks and the question-and-answer session. This information, along with GAAP reconciliation information, will be available on the Cisco Investor Relations Website at http://www.cisco.com/go/investors.
- A Q&A session with Cisco's Chairman and CEO John Chambers and CFO Frank Calderoni about Q1 FY 2010 results will be available at http://newsroom.cisco.com.
- To view a video of Cisco's CFO discussing Q1 FY 2010 results, visit Cisco's blog site, The Platform, at http://blogs.cisco.com.

About Cisco

Cisco (NASDAQ: CSCO) is the worldwide leader in networking that transforms how people connect, communicate and collaborate. Information about Cisco can be found at http://www.cisco.com . For ongoing news, visit http://newsroom.cisco.com .

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This release may be deemed to contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, statements regarding future events (such as the improving economic outlook and related opportunity, market transitions across collaboration, virtualization and video driving productivity and growth in network loads for the next decade, and the emergence of a new model of productivity based on collaboration and related business opportunity) and the future financial performance of Cisco that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: business and economic conditions and growth trends in the networking industry, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; the growth and evolution of the Internet and levels of capital spending on Internet-based systems; variations in customer demand for products and services, including sales to the service provider market and other customer markets; the return on our investments in certain market adjacencies and geographical locations during the current economic downturn; the timing of orders and manufacturing and customer lead times; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; variability of component costs; variations in sales channels, product costs or mix of products sold; our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses and technologies; increased competition in our product and service markets, including the data center; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters, and governmental investigations; natural catastrophic events; a pandemic or epidemic; our ability to achieve the benefits anticipated from our investments in sales and engineering activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during the current economic downturn; risks related to the global nature of our operations, including our operations in emerging markets; currency fluctuations and other international factors, including relating to transactions to hedge foreign currency consideration for acquisitions; changes in provision for income taxes, including changes in tax laws and regulations or adverse outcomes resulting from examinations of our income tax returns; potential volatility in operating results; and other factors listed in Cisco's most recent report on Form 10-K. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent report on Form 10-K filed on September 11, 2009, as it may be amended from time to time. Cisco's results of operations for the three months ended October 24, 2009 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in this release are based on limited information currently available to Cisco, which is subject to change. Although any such projections and the factors influencing them will likely change, Cisco will not necessarily update the information, since Cisco will only provide guidance at certain points during the year. Such information speaks only as of the date of this release.

This release includes non-GAAP net income, non-GAAP net income per share data, shares used in non-GAAP net income per share calculation, and non-GAAP inventory turns.

These non-GAAP measures are not in accordance with, or an alternative for measures prepared in accordance with, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Cisco believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Cisco's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate Cisco's results of operations in conjunction with the corresponding GAAP measures.

Cisco believes that the presentation of non-GAAP net income, non-GAAP net income per share data and shares used in non-GAAP net income per share calculation, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. In addition, Cisco believes that the presentation of non-GAAP inventory turns provides useful information to investors and management regarding financial and business trends relating to inventory management based on the operating activities of the period presented.

For its internal budgeting process, Cisco's management uses financial statements that do not include, when applicable, share-based compensation expense, amortization of acquisition-related intangible assets, other acquisition-related costs, enhanced early retirement benefits, the income tax effects of the foregoing, significant effects of retroactive tax legislation, and significant transfer pricing adjustments related to share-based compensation. Cisco's management also uses the foregoing non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the financial results of Cisco. In prior periods, Cisco has excluded other items that it no longer excludes for purposes of its non-GAAP financial measures; for example, effective in the third quarter of fiscal 2009, Cisco no longer excludes payroll tax on stock option exercises and effective beginning in fiscal 2010, Cisco no longer excludes in-process research and development as it is no longer expensed as a result of new accounting guidance. From time to time in the future, there may be other items that Cisco may exclude for purposes of its internal budgeting process and in reviewing its financial results.

For additional information on the items excluded by Cisco from one or more of its non-GAAP financial measures, refer to the Form 8-K regarding this release furnished today to the Securities and Exchange Commission.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per-share amounts)
(Unaudited)

	Three Months Ended	
	October 24, 2009	October 25, 2008
NET SALES:		
Product	$ 7,200	$ 8,635
Service	1,821	1,696
Total net sales	9,021	10,331
COST OF SALES:		
Product	2,486	2,981
Service	647	669
Total cost of sales	3,133	3,650
GROSS MARGIN	5,888	6,681
OPERATING EXPENSES:		
Research and development	1,224	1,406
Sales and marketing	1,995	2,283
General and administrative	440	395
Amortization of purchased intangible assets	105	112
In-process research and development	—	3
Total operating expenses	3,764	4,199
OPERATING INCOME	2,124	2,482
Interest income, net	54	195
Other income (loss), net	61	(72)
Interest and other income, net	115	123
INCOME BEFORE PROVISION FOR INCOME TAXES	2,239	2,605
Provision for income taxes	452	404
NET INCOME	$ 1,787	$ 2,201
Net income per share:		
Basic	$ 0.31	$ 0.37
Diluted	$ 0.30	$ 0.37
Shares used in per-share calculation:		
Basic	5,767	5,881
Diluted	5,871	5,972

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME
(In millions, except per-share amounts)

	Three Months Ended	
	October 24, 2009	October 25, 2008
GAAP net income	$ 1,787	$ 2,201
Share-based compensation expense [1]	321	304
Payroll tax on stock option exercises [2]	—	1
In-process research and development [3]	—	3
Amortization of acquisition-related intangible assets	149	166
Other acquisition-related costs [4]	4	122
Total adjustments to GAAP income before provision for income taxes	474	596
Income tax effect	(145)	(194)
Effect of retroactive tax legislation [5]	—	(106)
Total adjustments to GAAP provision for income taxes	(145)	(300)
Non-GAAP net income	$ 2,116	$ 2,497
Diluted net income per share:		
GAAP	$ 0.30	$ 0.37
Non-GAAP	$ 0.36	$ 0.42
Shares used in diluted net income per share calculation:		
GAAP	5,871	5,972
Non-GAAP	5,880	5,979

(1) Share-based compensation expense for the first quarter of fiscal 2010 and fiscal 2009 includes $28 million and $22 million, respectively, of share-based compensation related to acquisitions.

(2) Effective in the third quarter of fiscal 2009, Cisco no longer excludes payroll tax on stock option exercises for purposes of its non-GAAP financial measures.

(3) Effective beginning in fiscal 2010, Cisco no longer excludes in-process research and development for purposes of its non-GAAP financial measures as it is no longer expensed as a result of new accounting guidance.

(4) Other acquisition-related costs for the first quarter of fiscal 2010 includes a $42 million mark-to-market impact related to transactions to hedge a portion of the foreign currency consideration of an announced, pending business combination.

(5) In the first quarter of fiscal 2009, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 reinstated the U.S. federal R&D tax credit, retroactive to January 1, 2008. GAAP net income for the first quarter 2009 included a $106 million tax benefit related to fiscal 2008 R&D expenses. Non-GAAP net income for the first quarter of fiscal 2009 excluded the $106 million tax benefit related to fiscal 2008 R&D expenses.

Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

Additional reconciliations between GAAP and non-GAAP financial measures are provided in the tables that follow on page 10.

CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	October 24, 2009	July 25, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,774	$ 5,718
Investments	30,591	29,283
Accounts receivable, net of allowance for doubtful accounts of $216 at October 24, 2009 and July 25, 2009	3,159	3,177
Inventories	1,089	1,074
Deferred tax assets	2,205	2,320
Other current assets	2,879	2,605
Total current assets	44,697	44,177
Property and equipment, net	3,976	4,043
Goodwill	12,942	12,925
Purchased intangible assets, net	1,552	1,702
Other assets	5,513	5,281
TOTAL ASSETS	$ 68,680	$ 68,128
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 729	$ 675
Income taxes payable	97	166
Accrued compensation	2,263	2,535
Deferred revenue	6,397	6,438
Other current liabilities	3,676	3,841
Total current liabilities	13,162	13,655
Long-term debt	10,273	10,295
Income taxes payable	1,755	2,007
Deferred revenue	2,874	2,955
Other long-term liabilities	590	539
Total liabilities	28,654	29,451
Shareholders' equity	40,026	38,677
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 68,680	$ 68,128

Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	October 24, 2009	October 25, 2008
Cash flows from operating activities:		
Net income	$ 1,787	$ 2,201
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and other noncash items	429	393
Share-based compensation expense	321	304
Provision for doubtful accounts	4	17
Deferred income taxes	93	26
Excess tax benefits from share-based compensation	(21)	(17)
In-process research and development	—	3
Net (gains) losses on investments	(47)	70
Change in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	38	453
Inventories	(8)	8
Lease receivables, net	(100)	(65)
Accounts payable	52	(35)
Income taxes payable	(291)	(83)
Accrued compensation	(313)	(197)
Deferred revenue	(160)	(2)
Other assets	(186)	(405)
Other liabilities	(110)	47
Net cash provided by operating activities	1,488	2,718
Cash flows from investing activities:		
Purchases of investments	(9,537)	(12,461)
Proceeds from sales of investments	2,769	6,833
Proceeds from maturities of investments	5,664	3,509
Acquisition of property and equipment	(160)	(361)
Acquisition of businesses, net of cash and cash equivalents acquired	—	(288)
Change in investments in privately held companies	(32)	(11)
Other	43	(60)
Net cash used in investing activities	(1,253)	(2,839)
Cash flows from financing activities:		
Issuance of common stock	634	224
Repurchase of common stock	(1,869)	(1,002)
Excess tax benefits from share-based compensation	21	17
Other	35	(112)
Net cash used in financing activities	(1,179)	(873)
Net decrease in cash and cash equivalents	(944)	(994)
Cash and cash equivalents, beginning of period	5,718	5,191
Cash and cash equivalents, end of period	$ 4,774	$ 4,197

Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

ADDITIONAL FINANCIAL INFORMATION
(In millions)
(Unaudited)

	October 24, 2009	July 25, 2009
CASH AND CASH EQUIVALENTS AND INVESTMENTS		
Cash and cash equivalents	$ 4,774	$ 5,718
Fixed income securities	29,548	28,355
Publicly traded equity securities	1,043	928
Total	$ 35,365	$35,001
INVENTORIES		
Raw materials	$ 167	$ 165
Work in process	33	33
Finished goods:		
Distributor inventory and deferred cost of sales	403	382
Manufactured finished goods	307	310
Total finished goods	710	692
Service-related spares	147	151
Demonstration systems	32	33
Total	$ 1,089	$ 1,074
PROPERTY AND EQUIPMENT, NET		
Land, buildings, building improvements, and leasehold improvements	$ 4,501	$ 4,618
Computer equipment and related software	1,569	1,823
Production, engineering, and other equipment	5,273	5,075
Operating lease assets	242	227
Furniture and fixtures	471	465
	12,056	12,208
Less accumulated depreciation and amortization	(8,080)	(8,165)
Total	$ 3,976	$ 4,043
OTHER ASSETS		
Deferred tax assets	$ 2,112	$ 2,122
Investments in privately held companies	728	709
Lease receivables, net [1]	1,043	966
Financed service contracts [2]	648	676
Loan receivables [3]	712	537
Other	270	271
Total	$ 5,513	$ 5,281
DEFERRED REVENUE		
Service	$ 6,194	$ 6,496
Product		
Unrecognized revenue on product shipments and other deferred revenue	2,551	2,490
Cash receipts related to unrecognized revenue from two-tier distributors	526	407
Total product deferred revenue	3,077	2,897
Total	$ 9,271	$ 9,393
Reported as:		
Current	$ 6,397	$ 6,438
Noncurrent	2,874	2,955
Total	$ 9,271	$ 9,393

Note:

(1) The current portion of lease receivables, net, which was $689 million and $626 million as of October 24, 2009 and July 25, 2009, respectively, is recorded in other current assets.

(2) The current portion of financed service contracts, which was $1.0 billion and $940 million as of October 24, 2009 and July 25, 2009, respectively, is recorded in other current assets. These financed service contracts primarily relate to technical support services, and the associated revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically from one to three years.

(3) The current portion of loan receivables, net, which was $328 million and $236 million as of October 24, 2009 and July 25, 2009, respectively, is recorded in other current assets.

SUMMARY OF SHARE-BASED COMPENSATION EXPENSE
(In millions)

	Three Months Ended	
	October 24, 2009	October 25, 2008
Cost of sales—product	$ 12	$ 11
Cost of sales—service	33	31
Share-based compensation expense in cost of sales	45	42
Research and development	97	94
Sales and marketing	113	113
General and administrative	66	55
Share-based compensation expense in operating expenses	276	262
Total share-based compensation expense	$ 321	$ 304

The income tax benefit for share-based compensation expense was $85 million and $82 million for the first quarter of fiscal 2010 and fiscal 2009, respectively.

RECONCILIATION OF SHARES USED IN THE GAAP AND NON-GAAP DILUTED NET INCOME PER SHARE CALCULATION
(In millions)

	Three Months Ended	
	October 24, 2009	October 25, 2008
Shares used in diluted net income per share calculation—GAAP	5,871	5,972
Effect of share-based compensation expense	9	7
Shares used in diluted net income per share calculation—Non-GAAP	5,880	5,979

RECONCILIATION OF GAAP TO NON-GAAP COST OF SALES USED IN INVENTORY TURNS
(In millions)

	Three Months Ended		
	October 24, 2009	July 25, 2009	October 25, 2008
GAAP cost of sales	$ 3,133	$3,074	$ 3,650
Share-based compensation expense	(45)	(47)	(42)
Amortization of acquisition-related intangible assets	(44)	(39)	(54)
Enhanced early retirement benefits	—	(28)	—
Non-GAAP cost of sales	$ 3,044	$2,960	$ 3,554

Exhibit 99.2

The following is the transcript of a video of the Registrant's Chief Financial Officer discussing the results of operations for the Registrant's fiscal first quarter ended October 24, 2009.

I'm Frank Calderoni, Cisco's CFO.

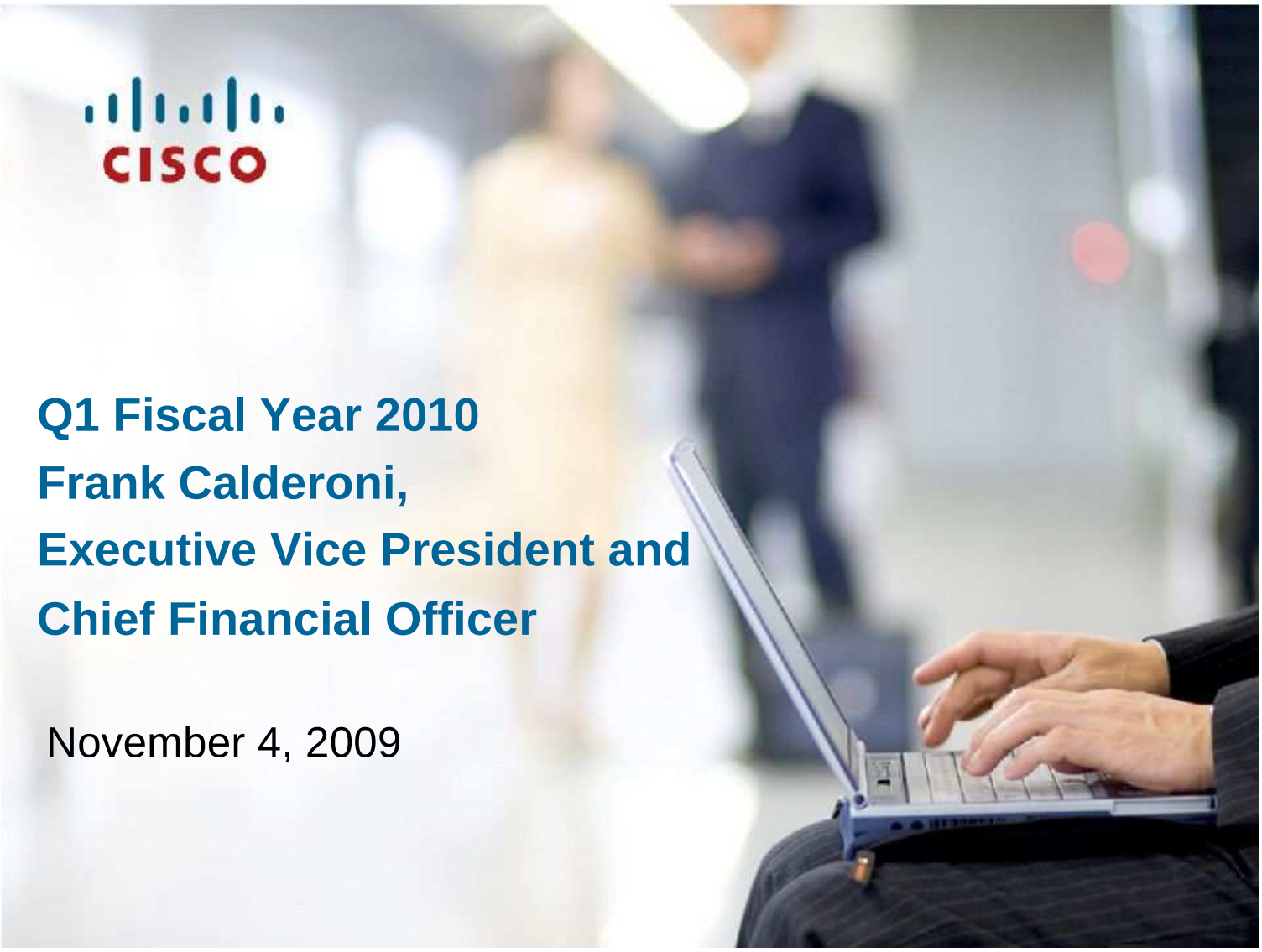
Today, we announced very solid results for the first quarter of our fiscal year 2010, representing two quarters of sequentially positive revenue growth with first quarter net sales of $9 billion.

On a GAAP basis, net income was $1.8 billion or $0.30 per share. We delivered earnings per share on a non-GAAP basis of $0.36 per share, driven by strength across our broad portfolio and an intense focus on execution. Net income on a non-GAAP basis was $2.1 billion.

Our results validate our strategy and portfolio approach in balancing disciplined expense management with strategic investment, and driving continued profitability through varying economic environments.

We exit this quarter with a very compelling financial position and an innovation engine that we believe will position us to capture market transitions and expand our leadership in the marketplace.

Thank you.



Q1 Fiscal Year 2010

Frank Calderoni, Executive Vice President and Chief Financial Officer

November 4, 2009

GAAP RECONCILIATION

During this presentation references to financial measures of Cisco will include references to non-GAAP financial measures. Cisco provides a reconciliation between GAAP and non-GAAP at **http:// investor.cisco.com**

FORWARD-LOOKING STATEMENTS

This presentation contains projections and other forward-looking statements regarding future events or the future financial performance of Cisco, including future operating results. These projections and statements are only predictions. Actual events or results may differ materially from those in the projections or other forward-looking statements. Please see Cisco's filings with the SEC, including its most recent filing on Form 10-K, for a discussion of important risk factors that could cause actual events or results to differ materially from those in the projections or other forward-looking statements.

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME
(In millions, except per-share amounts)

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME (In millions, except per-share amounts)	Three Months Ended	
	Oct.24, 2009	Oct.25, 2008
GAAP net income	$ 1,787	$ 2,201
Share-based compensation expense	321	304
Payroll tax on stock option exercises	-	1
In-process research and development	-	3
Amortization of acquisition-related intangible assets	149	166
Other acquisition-related costs	4	122
Total adjustments to GAAP income before provision for income taxes	474	596
Income tax effect	(145)	(194)
Effect of retroactive tax legislation	-	(106)
Total adjustments to GAAP provision for income taxes	(145)	(300)
Non-GAAP net income	$ 2,116	$ 2,497
Diluted net income per share:		
GAAP	$ 0.30	$ 0.37
Non-GAAP	$ 0.36	$ 0.42
Shares used in diluted net income per share calculation - GAAP	5,871	5,972
Effect of share-based compensation	9	7
Shares used in diluted net income per share calculation - Non-GAAP	5,880	5,979

Forward-Looking Statements

This video may be deemed to contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, statements regarding future events (such as our strategy, portfolio approach, driving continued profitability through varying economic environments, compelling financial position, capturing market transitions, and expanding leadership in the marketplace) and the future financial performance of Cisco that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: business and economic conditions and growth trends in the networking industry, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending;

the growth and evolution of the Internet and levels of capital spending on Internet-based systems; variations in customer demand for products and services, including sales to the service provider market and other customer markets; the return on our investments in certain market adjacencies and geographical locations during the current economic downturn; the timing of orders and manufacturing and customer lead times; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; variability of component costs; variations in sales channels, product costs or mix of products sold; our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses and technologies; increased competition in our product and service markets, including the data center; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters, and governmental investigations; natural catastrophic events; a pandemic or epidemic; our ability to achieve the benefits anticipated from our

investments in sales and engineering activities; our ability to recruit and retain key personnel; our ability to manage financial risk, and to manage expenses during the current economic downturn; risks related to the global nature of our operations, including our operations in emerging markets; currency fluctuations and other international factors; changes in provision for income taxes, including changes in tax laws and regulations or adverse outcomes resulting from examinations of our income tax returns; potential volatility in operating results; and other factors listed in Cisco's most recent report on Form 10-K. The financial information contained in this video should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent report on Form 10-K filed on September 11, 2009, as it may be amended from time to time. Cisco's results of operations for the three months ended October 24, 2009 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in this video are based on limited information currently available to Cisco, which is subject to change. Although any such projections and the factors influencing them will likely change, Cisco will not necessarily update the information, since Cisco will only provide guidance at certain points during the year. Such information speaks only as of the date of this video.

For more information on Cisco and Cisco's financials, please visit:

http://investor.cisco.com

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