

CISCO SYSTEMS, INC.

FORM 8-K (Current report filing)

Filed 05/11/01 for the Period Ending 05/08/01

| | |
|-------------|---|
| 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 |

CISCO SYSTEMS INC

FORM 8-K (Unscheduled Material Events)

Filed 5/11/2001 For Period Ending 5/8/2001

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

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): MAY 8, 2001

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in 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 95134-1706

(Address of principal executive offices) (Zip Code)

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

ITEM 5. OTHER EVENTS

On May 8, 2001, Cisco Systems, Inc. (the "Registrant") reported its third quarter results for the period ending April 28, 2001. A copy of the press release issued by the Registrant on May 8, 2001 concerning the foregoing quarter results is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Exhibits.

99.1 Press Release of Registrant, dated May 8, 2001, announcing Registrant's release of its third quarter results for the period ending April 28, 2001.

SIGNATURES

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

CISCO SYSTEMS, INC.

Dated: May 10, 2001

By: /s/ DANIEL SCHEINMAN

*Daniel Scheinman,
Senior Vice President
Legal and Government Affairs*

EXHIBIT INDEX

| Exhibit Number ----- | Description of Document ----- |
|----------------------------|--|
| 99.1 | Press Release of Registrant, dated May 8, 2001, announcing Registrant's release of its third quarter results for the period ending April 28, 2001. |

EXHIBIT 99.1

INVESTOR CONTACT: PRESS CONTACT:

Blair Christie Abby Smith

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CISCO SYSTEMS REPORTS THIRD QUARTER EARNINGS

SAN JOSE, California -- May 8, 2001 -- Cisco Systems, Inc., the worldwide leader in networking for the Internet, today reported its third quarter results for the period ending April 28, 2001.

Net sales for the third quarter of fiscal 2001 were \$4.73 billion, compared with \$4.93 billion for the same period last year, a decrease of 4%. Pro forma net income, which excludes the effects of acquisition charges, payroll tax on stock option exercises, restructuring costs and other special charges, an excess inventory charge, and net gains realized on minority investments, was \$230 million or \$0.03 per share for the third quarter of fiscal 2001, compared with pro forma net income of \$1.0 billion or \$0.13 per share for the third quarter of fiscal 2000, decreases of 77% and 77%, respectively.

During the third quarter of fiscal 2001, Cisco completed the acquisitions of Active Voice Corporation, Radiata, Inc., and ExiO Communications, Inc. for a combined purchase price, including assumed liabilities, of approximately \$621 million and took a one-time charge of \$109 million, or approximately \$0.01 per share on an after-tax basis, as a write-off of in-process R&D. In addition, the Company announced a program to reduce its workforce, consolidate excess facilities, and restructure certain business functions. As a result of the restructuring program and a decline in forecasted revenue, the Company recorded restructuring costs and other special charges of \$1.17 billion and an excess inventory charge of \$2.2 billion.

Actual net loss for the third quarter of fiscal 2001 was \$2.69 billion or \$0.37 per share, compared with actual net income of \$641 million or \$0.08 per share for the same period last year.

Net sales for the first nine months of fiscal 2001 were \$17.99 billion, compared with \$13.21 billion for the first nine months of fiscal 2000, an increase of 36%. Pro forma net income was \$2.92 billion or \$0.39 per share for the first nine months of fiscal 2001, compared with pro forma net income of \$2.72 billion or \$0.37 per share for the first nine months of fiscal 2000, increases of 8% and 5%, respectively.

Actual net loss for the first nine months of fiscal 2001 was \$1.02 billion or \$0.14 per share, compared with actual net income of \$1.87 billion or \$0.25 per share for the first nine months of fiscal 2000.

"The first four months of 2001 were extremely challenging as we went from year-over-year bookings in excess of 70% in November, to 30% negative growth within a span of several months. This may be the fastest deceleration any company of our size has ever experienced," said John Chambers, president and CEO of Cisco Systems. "We believe that the challenges we face are primarily based on macro-economic and capital spending issues, although there is always room for improvement in our own operations. We believe the strong will get stronger while the economy rapidly goes through peaks and valleys of change. All of this better positions Cisco to lead, if we execute effectively, as the Internet and the associated applications continue to drive the Internet economy."

Cisco continues to deliver best of breed products across an end-to-end architecture in each of its key markets to make its customers successful.

In the service provider marketplace, Cisco continued to advance its IP leadership and expertise by delivering best in breed products and acting as preferred partner to service provider customers, enabling them to build data services that drive new revenue opportunities. Demonstrating continued optical momentum in the service provider market, Cisco gained the number one market share position in the OC-48 SONET equipment segment and extended its leadership in the IP+Optical market with the introduction of the Cisco 7600 Optical Services Router and the Cisco ONG 15200 Metro DWDM Solution. On the IP side, Cisco added scalable virtual private network (VPN) capabilities to the Cisco 10000 Edge Routing platform and shipped 10,000 ports of dynamic packet transport technology to over 150 customers. Cisco was also selected to provide the core IP technology for Global Crossing, El Paso Global Networks, China Net, and Telia. The company was also chosen to provide optical networking technology to Cogent, Touch America and Avista and content networking solutions to Qwest.

In the enterprise market, Cisco continued to gain momentum with Cisco AVVID (Architecture for Voice, Video and Integrated Data), which provides the intelligent technology foundation for today's Internet business solutions. Further delivering on the promise of this standards-based architectural approach, the company announced the Cisco AVVID Partner Program, with 128 partners delivering security and VPN, network management, IP telephony, and storage services on the Cisco AVVID infrastructure. The company also introduced the Cisco ONS 15540 Extended Services Platform, a

metropolitan dense wave division multiplexing (DWDM) product designed for high-end networking applications in both enterprise and service provider environments. Backed by a full initiative comprising key storage industry partners, Cisco entered the storage networking market with the introduction of the world's first available small computer systems interface over IP (iSCSI) networking platform, the Cisco SN 5420 Storage Router. Further demonstrating the company's leadership and commitment to innovation in the Voice over IP (VoIP) market, seven new IP telephony products were unveiled. These VoIP products provide increased personal productivity, reduced operational costs and business flexibility for corporate and branch office locations. Cisco continues to see new customer adoption of its IP telephony solution, including an 11,000 seat contract with Swinburne University in Australia, as well as deals with the State of Connecticut and the University of Arkansas at Pinebluff.

In the commercial space, Cisco continued its commitment to helping small and medium-sized businesses achieve their full potential through the use of the Internet. Cisco launched its Long-Reach Ethernet (LRE) technology, a high-performance broadband solution for multi unit buildings unable to deploy structured cabling. Cisco also announced a strategic relationship with Starwood Hotels & Resorts Worldwide, Inc. to deliver secure, high-speed Internet access and next-generation services to hotel guests and employees through its LRE technology over their hotel's existing telephone wires. Cisco announced its collaboration with Microsoft to develop and deploy the first enterprise authentication and security architecture on its 802.11 wireless LAN infrastructure. Cisco also demonstrated the scalability of its Cisco Aironet(R) Wireless Networking Solution through its largest wireless LAN deployment at Microsoft, a key strategic partner. Microsoft now has about 3,000 access points throughout its campuses with approximately 7,000 employees using wireless LAN cards in their laptops. The Cisco Aironet Wireless LAN Solution won several awards, including Network World's World Class Award. Several Cisco customers moved to wireless LAN technology including many in the higher education market such as Harvard University, Dartmouth College, and Howard University, and also in the health care market such as Children's Hospital in Milwaukee and Ochsner Medical Institute and Ochsner Clinic and Hospital in New Orleans.

"What we have clearly seen over the last several years is the speed at which this new economy can move in both directions. Changes that used to take place over multiple quarters, or even over years, now take place within months. It is also now clear to us that the peaks in this new economy will be much higher and the valleys will be much lower, and the movement between these peaks and valleys will be much faster. We are now in a valley much deeper than any of us anticipated and we believe the

basic issues are macro-economic and capital spending related. We also believe that the long-term outlook for this new economy and the role that the Internet and Cisco play in this new economy has not changed, " concluded Chambers.

Cisco will be discussing its third quarter results, along with its outlook for the remainder of fiscal 2001, on a conference call today, beginning at 1:45 p.m. PST. A Web cast of the conference call will be available to all interested parties on the Cisco Web site at www.cisco.com under the "Investor Relations" section.

ABOUT CISCO SYSTEMS

Cisco Systems, Inc., (NASDAQ: CSCO) is the worldwide leader in networking for the Internet. News and information are available at www.cisco.com.

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This release contains projections and other forward-looking statements regarding future events 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. Readers are referred to the documents filed by Cisco with the SEC, specifically the most recent reports on Form 10-K, 8-K, and 10-Q, each as it may be amended from time to time, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including risks associated with business and economic conditions and growth in the networking industry in various geographic regions; global economic conditions; overall information technology spending, especially service provider capital spending in the data or IP segments; variations in customer demand for products and services; the ability to successfully restructure existing businesses; the timing of orders and manufacturing lead times; changes in customer order patterns; insufficient, excess or obsolete inventory; variations in sales channels, product costs, or mix of products sold; the ability to successfully reduce overhead and manage expenses; the ability to successfully integrate and operate acquired businesses and technologies; increased competition in the networking industry; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; the trend towards sales of integrated network solutions; manufacturing and sourcing risks; Internet infrastructure and regulation; international operations, the timing and amount of employer payroll tax to be paid on employees' gains on stock options exercised; litigation involving patents, intellectual property, antitrust and other matters; stock price volatility; financial risk management; and potential volatility in operating results, among others. 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 reports on Form 10-K and Form 10-Q, each as it may be amended from time to time. Cisco's results of operations for the three and nine months ended April 28, 2001 are not necessarily indicative of Cisco's operating results for the full fiscal year or any future periods.

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Cisco Systems, Inc.
PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
(SEE PRO FORMA ADJUSTMENTS LISTED IN TABLE BELOW)

(In millions, except per-share amounts)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | April 28, 2001 | April 29, 2000 | April 28, 2001 | April 29, 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| NET SALES | \$ 4,728 | \$ 4,933 | \$ 17,995 | \$ 13,208 |
| Cost of sales | 2,151 | 1,761 | 7,110 | 4,688 |
| | ----- | ----- | ----- | ----- |
| GROSS MARGIN | 2,577 | 3,172 | 10,885 | 8,520 |
| Operating expenses: | | | | |
| Research and development | 970 | 717 | 2,885 | 1,860 |
| Sales and marketing | 1,333 | 1,024 | 4,102 | 2,775 |
| General and administrative | 191 | 154 | 578 | 388 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 2,494 | 1,895 | 7,565 | 5,023 |
| | ----- | ----- | ----- | ----- |
| OPERATING INCOME | 83 | 1,277 | 3,320 | 3,497 |
| Interest and other income, net | 236 | 158 | 741 | 380 |
| | ----- | ----- | ----- | ----- |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 319 | 1,435 | 4,061 | 3,877 |
| Provision for income taxes | 89 | 430 | 1,138 | 1,161 |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 230 | \$ 1,005 | \$ 2,923 | \$ 2,716 |
| | ===== | ===== | ===== | ===== |
| Net income per share--basic | \$ 0.03 | \$ 0.14 | \$ 0.41 | \$ 0.39 |
| | ===== | ===== | ===== | ===== |
| Net income per share--diluted | \$ 0.03 | \$ 0.13 | \$ 0.39 | \$ 0.37 |
| | ===== | ===== | ===== | ===== |
| Shares used in per-share calculation--basic | 7,251 | 7,036 | 7,170 | 6,927 |
| | ===== | ===== | ===== | ===== |
| Shares used in per-share calculation--diluted | 7,486 | 7,548 | 7,552 | 7,408 |
| | ===== | ===== | ===== | ===== |
| THE PRO FORMA AMOUNTS HAVE BEEN ADJUSTED TO ELIMINATE THE FOLLOWING: | | | | |
| In-process research and development | \$ 109 | \$ 488 | \$ 855 | \$ 912 |
| Payroll tax on stock option exercises | 10 | 25 | 50 | 25 |
| Acquisition-related costs | -- | -- | -- | 25 |
| Amortization of goodwill and other acquisitions-related charges | 346 | 51 | 863 | 122 |
| Net gains realized on minority investments | -- | (156) | (190) | (187) |
| Restructuring costs and other special charges | 1,170 | -- | 1,170 | -- |
| Excess inventory charge | 2,249 | -- | 2,249 | -- |
| Income tax effect | (961) | (44) | (1,053) | (53) |
| | ----- | ----- | ----- | ----- |
| | \$ 2,923 | \$ 364 | \$ 3,944 | \$ 844 |
| | ===== | ===== | ===== | ===== |

Cisco Systems, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per-share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | April 28, 2001 | April 29, 2000 | April 28, 2001 | April 29, 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| NET SALES | \$ 4,728 | \$4,933 | \$ 17,995 | \$13,208 |
| Cost of sales | 4,400 | 1,761 | 9,359 | 4,688 |
| | ----- | ----- | ----- | ----- |
| GROSS MARGIN | 328 | 3,172 | 8,636 | 8,520 |
| Operating expenses: | | | | |
| Research and development | 970 | 717 | 2,885 | 1,860 |
| Sales and marketing | 1,333 | 1,024 | 4,102 | 2,775 |
| General and administrative | 191 | 154 | 578 | 413 |
| Restructuring costs and other special charges | 1,170 | -- | 1,170 | -- |
| Payroll tax on stock option exercises | 10 | 25 | 50 | 25 |
| Amortization of goodwill and other acquisition-related charges | 346 | 51 | 863 | 122 |
| In-process research and development | 109 | 488 | 855 | 912 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 4,129 | 2,459 | 10,503 | 6,107 |
| | ----- | ----- | ----- | ----- |
| OPERATING INCOME (LOSS) | (3,801) | 713 | (1,867) | 2,413 |
| Net gains realized on minority investments | -- | 156 | 190 | 187 |
| Interest and other income, net | 236 | 158 | 741 | 380 |
| | ----- | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAXES | (3,565) | 1,027 | (936) | 2,980 |
| Provision for (benefit from) income taxes | (872) | 386 | 85 | 1,108 |
| | ----- | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$(2,693) | \$ 641 | \$ (1,021) | \$ 1,872 |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per share--basic | \$ (0.37) | \$ 0.09 | \$ (0.14) | \$ 0.27 |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per share--diluted | \$ (0.37) | \$ 0.08 | \$ (0.14) | \$ 0.25 |
| | ===== | ===== | ===== | ===== |
| Shares used in per-share calculation--basic | 7,251 | 7,036 | 7,170 | 6,927 |
| | ===== | ===== | ===== | ===== |
| Shares used in per-share calculation--diluted (1) | 7,251 | 7,548 | 7,170 | 7,408 |
| | ===== | ===== | ===== | ===== |

Note 1: Net loss per share--diluted for the three and nine months ended April 28, 2001 is computed using the weighted-average number of common shares outstanding during the period and excludes common-equivalent shares as they are anti-dilutive.

Cisco Systems, Inc.
CONSOLIDATED BALANCE SHEETS
(In millions)

| | April 28, 2001 ----- (Unaudited) | July 29, 2000 ----- |
|---|---|---------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,102 | \$ 4,234 |
| Short-term investments | 1,098 | 1,291 |
| Accounts receivable, net of allowance for doubtful accounts of \$150 at April 28, 2001 and \$43 at July 29, 2000 | 1,983 | 2,299 |
| Inventories, net | 1,913 | 1,232 |
| Deferred tax assets | 950 | 1,091 |
| Lease receivables | 488 | 588 |
| Prepaid expenses and other current assets | 542 | 375 |
| | ----- | ----- |
| Total current assets | 12,076 | 11,110 |
| Investments | 9,936 | 13,688 |
| Restricted investments | 1,211 | 1,286 |
| Property and equipment, net | 2,410 | 1,426 |
| Goodwill and purchased intangible assets, net | 4,955 | 4,087 |
| Lease receivables | 403 | 527 |
| Other assets | 2,799 | 746 |
| | ----- | ----- |
| TOTAL ASSETS | \$33,790 ===== | \$32,870 ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 664 | \$ 739 |
| Income taxes payable | 111 | 233 |
| Accrued compensation | 1,206 | 1,317 |
| Deferred revenue | 2,585 | 1,386 |
| Other accrued liabilities | 2,441 | 1,521 |
| Restructuring liabilities | 668 | -- |
| | ----- | ----- |
| Total current liabilities | 7,675 | 5,196 |
| Deferred tax liabilities | -- | 1,132 |
| Minority interest | 22 | 45 |
| Shareholders' equity | 26,093 | 26,497 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$33,790 ===== | \$32,870 ===== |

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