CISCO SYSTEMS, INC.

FORM 10-K
(Annual Report)

Filed 09/24/01 for the Period Ending 07/28/01

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

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FORM 10-K
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Address	170 WEST TASMAN DR
	SAN JOSE, California 95134-1706
Telephone	408-526-4000
CIK	0000858877
Industry	Communications Equipment
Sector	Technology
Fiscal Year	07/31

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

FORM 10-K

(Mark one)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 28, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California	77-0059951
(State or other jurisdiction of incorporation or organization)	(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

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

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

Common stock, $0.001 par value
Preferred Stock Purchase Rights

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

As of September 13, 2001, 7,334,019,051 shares of Registrant's common stock were outstanding. The approximate aggregate market value of voting stock held by non-affiliates of the Registrant was $104,195,415,267 (based upon the closing price for shares of the Registrant's common stock as reported by the NASDAQ National Market on that date).

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Registrant's Annual Report to Shareholders for its fiscal year ended July 28, 2001 are incorporated by reference into Part I and Part II of this Annual Report on Form 10-K where indicated.

(2) Portions of the Registrant's Proxy Statement relating to the Registrant's 2001 Annual Meeting of Shareholders, to be held on November 13, 2001, are incorporated by reference into Part III of this Form 10-K where indicated.

PART I

ITEM 1. BUSINESS

GENERAL

Certain statements contained in this Annual Report on Form 10-K ("Report"), including, without limitation, statements containing the words "believes," "anticipates," "estimates," "expects," "projections," and words of similar import, constitute "forward-looking statements." Readers should not place undue reliance on these forward-looking statements. Cisco's actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks faced by the Company described in this Report, including the "Risk Factors" section contained in this Item 1, and the other documents Cisco files with the Securities and Exchange Commission ("SEC"), including its most recent reports on Form 8-K and Form 10-Q, and amendments thereto.

Cisco Systems, Inc. (the "Company" or "Cisco") is the worldwide leader in networking for the Internet. Cisco Internet Protocol ("IP")-based networking solutions are the foundation of the Internet and are installed at corporations, public institutions, telecommunication companies, and are found in a growing number of medium-sized commercial enterprises. Cisco provides a broad line of solutions for transporting data, voice, and video within buildings, across campuses, or around the world. Cisco solutions allow networks, both public and private, to operate with flexibility, security, and performance.

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

On April 16, 2001, due to macroeconomic and capital spending issues affecting the networking industry, the Company announced a restructuring program to prioritize its initiatives around high-growth areas of its business, focus on profit contribution, reduce expenses, and improve efficiency. This restructuring program included a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain businesses. As a result of the restructuring program and decline in forecasted revenue, the Company recorded restructuring costs and other special charges and an additional excess inventory charge. For additional information regarding the restructuring program, see the section titled "Restructuring Costs and Other Special Charges and Provision for Inventory" on pages 17 to 19 of the Company's 2001 Annual Report to Shareholders, which is incorporated by reference herein.

On August 23, 2001, Cisco announced several organizational changes designed to align the Company's focus around changing customer requirements and emphasize the Company's advantages as the communications market and industries consolidate. These changes include moving from the Company's existing line of business structure to centralized engineering and marketing organizations. The new engineering organization will focus on 11 new technology groups, while marketing will focus on communicating Cisco's unique technology differentiation.

Cisco was incorporated in California in December 1984 and is headquartered in San Jose. The mailing address for the Company's headquarters is 170 West Tasman Drive, San Jose, California, 95134-1706, and its telephone number at that location is (408) 526-4000. The Cisco Web site can be found at www.cisco.com.

END-TO-END NETWORKING SOLUTIONS

Cisco is the worldwide leader in networking for the Internet. The Cisco strategy is to provide open, end-to-end, standards-based networking solutions to help customers improve productivity and gain a competitive advantage in the global economy. Cisco helps customers build their own network infrastructure while also providing tools to allow them to communicate with their customers, prospects, business partners, suppliers, and employees. An end-to-end networking solution allows network services to be consistently provided to all users on the network.

The Cisco product portfolio offers a broad range of end-to-end networking hardware, software, and services. Products are used individually or in combinations to connect computing devices to networks or computer networks with each other -- whether they are within a building, across a campus, or around the world. The Company's breadth of product offerings enables it to offer a wide range of solutions to meet customer requirements. Many of the Company's products are easily upgraded or expanded, offering customers the ability to extend their networks as their needs grow, while protecting their investments.

The Company also provides products and services that allow customers to transition their various data networks to a single multiservice data, voice, and video network.

Cisco's offerings fall into several categories:

Routing

Routing is a foundation technology for computer networking. Routers move information from one network to another, applying intelligence in the process to ensure that the information reaches its destination securely and in the most direct way possible. Cisco offers a broad range of routers that can be used in a large backbone infrastructure or a small office, including the Cisco 12000, 10000, 7600, 7400, and 7300 Series Internet Routers and the Cisco 3600, 2600, 2500, 1700, 1600, and 800 Series Internet Routers.

Switching

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

Access

Today, people need remote access to the Internet or to a network that is used for a variety of personal, professional, or work-related applications. Cisco access solutions give remotely located groups and individuals similar levels of connectivity and information access, as if they were located at the company's head office or at home. Asynchronous and integrated services digital network ("ISDN") remote-access routers, dial-up access servers, digital subscriber line ("DSL") technologies, and cable universal broadband routers provide telecommuters, mobile workers, and students with remote network access. The Company's access products include the Cisco AS5000 Series Access Servers; the Cisco 6100 and 6200 lines of digital subscriber line access multiplexers ("DSLAMs"); the Cisco uBR7200 Series Universal Broadband Router cable head-end equipment; access routers such as the Cisco 3800, 3600, and 2600 Series Internet Routers; and network security and management software.

Customer Advocacy

Customer Advocacy ("CA") complements the Company's product offerings via a broad range of consulting, technical, project, quality, and maintenance support level services striving to ensure high availability networks and customer satisfaction. Cisco CA provides flexible service solutions such as 24x7 online and telephone support, onsite technical assistance center ("TAC") engineers, and more. Cisco CA helps customers transition to the Internet economy by enabling them to rapidly deploy new technologies, reduce and manage the risk associated with the deployment of new technologies, streamline business processes, and reduce operating costs.

Other

Other Cisco offerings include Internet services, network management software, and optical networking, among others, as follows:

Internet Service

Cisco offers end-to-end Internet services to improve a network manager's ability to cope with challenges posed by the growing popularity of the Internet, such as network traffic volume and network address shortages. Cisco drives architectural consistency across the company by focusing on standards-based services between clients and servers such as end-to-end quality of service ("QoS") and end-to-end security. These products include: Cisco Secure PIX(R) Firewall, which prevents unauthorized access to a network; the Cisco Secure Scanner, which scans the network for security risks; the Cisco Intrusion Detection System, which detects and responds to unauthorized activity or network attacks; Cisco Secure VPN Client 1.0, which ensures data privacy when accessing the network remotely; Cisco LocalDirector, Cisco Cache Engine, and Cisco DistributedDirector, which balance the load between multiple servers to enable timely access and to eliminate redundant Internet content; and the Cisco Server Suite 1000, which consists of server applications with a graphical user interface ("GUI").

Network Management Software

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

In order for service providers to profit from increasing new business opportunities, services must be carefully planned, quickly provisioned, efficiently operated, and accurately billed. The Cisco Service Management ("CSM") System is a network service and delivery management system that provides a modular suite of service management products integrated within a common and scalable infrastructure. CSM enables service providers to effectively deploy, monitor, and manage these new network services, while potentially increasing revenue and reducing cost.

Cisco also offers software solutions to expand the Company's technology offerings into messaging and call centers and extend Cisco's presence in the broader market for intelligent customer-contact software applications. These software applications allow end-users to unify voice-mail, e-mail, and fax traffic into a single mailbox accessible over an Internet-based network independent of location, time, or device. And, when calling in for customer support, users are connected to the best available customer service representative regardless of physical location.

Optical Networking

Cisco provides optical networking solutions through its Cisco ONS 15000 Series optical networking systems, which includes the ONS 15800 Series. The Cisco ONS 15000 Series enables multiservice networking and bandwidth management for scalable, data-optimized networks using dense wave division multiplexing ("DWDM") and SONET technology for metropolitan networks.

The following technologies are offered in conjunction with all of the above product categories:

Cisco AVVID

Cisco AVVID (Architecture for Voice, Video, and Integrated Data) provides an intelligent network infrastructure for Internet business solutions. As the industry's only enterprise-wide, standards-based network architecture, Cisco AVVID provides the roadmap for combining Cisco and its customers' business and technology strategies into one cohesive model. The Cisco AVVID architecture consists of several building blocks that deliver Internet business solutions -- network platforms, infrastructure, service control, and Internet business.

Cisco IOS Software

Cisco IOS(R) Software is a common networking software platform deployed across a broad spectrum of Cisco products. Cisco IOS Software delivers intelligent network services -- such as QoS, load-balancing, voice delivery, and multicast functions -- that enable customers to build a flexible network infrastructure that is scalable, reliable, and secure. These intelligent network services also support Internet business solutions.

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

CUSTOMERS AND MARKETS

Networking needs are influenced by a number of factors, including the size of the organization, number and types of computer systems, geographic location, and the applications requiring data communications. The Cisco customer base is not concentrated in any particular industry and in each of the past five fiscal years, no single customer has accounted for 10 percent or more of the Company's net sales. For additional information regarding segment information for the Company, see Note 13, "Segment Information and Major Customers" on pages 43 to 45 of the Company's 2001 Annual Report to Shareholders, which is incorporated by reference herein.

Cisco's customers are primarily in the following markets:

Large Enterprise Businesses

Enterprise customers generally are large organizations with 500 or more employees with complex networking needs, usually spanning multiple locations and types of computer systems. Enterprise customers include corporations, government agencies, utilities, and educational institutions.

Service Providers

These customers provide data, voice, and video communication services to businesses and consumers. They include regional, national, and international long distance telecommunications carriers, as well as Internet, cable, and wireless service providers.

Small and Medium-Sized Businesses

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

Cisco also works to set standards for the consumer market through the Internet Home Alliance. This not-for-profit, open alliance was established based on a shared mission of making a difference through market collaboration and education.

CISCO SALES OVERVIEW

The Company's worldwide direct sales and marketing organization at July 28, 2001 consisted of approximately 15,000 individuals, including managers, sales representatives, and technical support personnel. The Company has field sales offices globally providing coverage throughout the world. Additionally, the Company's international sales are currently being made through multiple channels including international distributors, resellers, and direct sales throughout the world. The distributors provide system installation, technical support, and follow-up services to end-customers. Generally, the Company's international distributors have nonexclusive, countrywide agreements. For additional information regarding the Company's international sales, see Note 13, "Segment Information and Major Customers" on pages 43 to 45 of the Company's 2001 Annual Report to Shareholders, which is incorporated by reference herein.

Cisco Systems Capital Corporation provides financing to certain qualified customers to be used for the purchase of equipment and other needs. For additional information regarding Cisco Systems Capital Corporation's financing activities, see Note 6, "Lease Receivables" on page 34 of the Company's 2001 Annual Report to Shareholders, which is incorporated by reference herein.

ACQUISITIONS, INVESTMENTS, AND ALLIANCES

The end-to-end networking strategy pursued by Cisco requires a wide variety of technologies, products, and capabilities. The combination of complexity and rapid change make it difficult for one company, no matter how large, to develop all technological solutions alone. Acquisitions, investments, and alliances are tools used by the Company to fill technical gaps in its offerings and enable it to deliver complete solutions to customers and prospects in its target markets. The Company's acquisitions have reinforced its commitment to providing an end-to-end networking solution.

Satisfying customers' networking needs requires a constant monitoring of market and technology trends, plus an ability to act quickly. Cisco employs one of the following strategies to satisfy the need for new or enhanced networking products and solutions: Develop new technologies and products internally; enter into joint-development efforts with other companies; resell another company's product; or acquire all or part of another company.

Since 1993, Cisco has acquired a number of companies. The Company expects to make future acquisitions where it believes that it can acquire new technologies and products. Mergers and acquisitions of high-technology companies are inherently risky and no assurance can be given that the Company's previous or future acquisitions will be successful or will not materially adversely affect the Company's financial condition or operating results. The risks associated with acquisitions are more fully discussed in the "Risk Factors" section contained in Item 1 of this Report.

MINORITY INVESTMENTS

The Company makes minority investments in companies that develop technology or provide services that are complementary to Cisco products or that support the Internet. By investing in new ventures, Cisco strengthens its partnerships with such companies. Together, Cisco and its partners can offer more complete solutions to the market.

STRATEGIC ALLIANCES

Cisco pursues strategic alliances with other industry leaders in areas where collaboration can produce industry advancement and acceleration of new markets. The objectives and goals for a strategic alliance can include one or more of the following: Technology exchange, product and solution development, joint sales and marketing, and new-market creation. To date, Cisco has entered into alliances with Callisma, Cap Gemini/Ernst & Young, Compaq, Hewlett Packard, Intel, IBM, Italtel, KPMG Consulting, Inc., Microsoft, Motorola, Oracle, Sun Microsystems, and Thrupoint, among others.

BACKLOG

The Company's backlog at September 14, 2001 was approximately $2.03 billion compared with a backlog of approximately $3.40 billion at September 25, 2000. The Company includes in its backlog only orders confirmed with a purchase order for products to be shipped within 90 days to customers with approved credit status. During fiscal 2001, the Company changed its backlog policy to include products that will be shipped within 90 days from the previous policy of 120 days. Under the terms of the previous policy, the backlog at September 25, 2000 was approximately $3.83 billion. Because of the generally short cycle between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), the Company does not believe that its backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.

COMPETITION

Cisco competes in the Internet infrastructure market, providing solutions for transporting data, voice, and video traffic across intranets, extranets, and the Internet. The market is characterized by rapid change, converging technologies, and a conversion to New World solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to Cisco. The Company competes with numerous vendors in each product category. The overall number of competitors providing niche product solutions may increase due to the market's long-term attractive growth. On the other hand, the Company expects the number of vendors supplying end-to-end networking solutions will decrease, due to consolidations in and accompanying economic pressure upon the industry. The Company believes its primary competition comes from nimble start-ups and young companies offering innovative niche solutions.

Cisco's competitors include Alcatel, Ciena, Ericsson, Extreme Networks, Foundry Networks, Juniper, Lucent, Nortel Networks, Redback Networks, Siemens AG, and Sycamore Networks, among others. Some of the Company's competitors compete across many of its product lines, while others do not offer as wide a breadth of solutions. Several of the Company's current and potential competitors have greater resources, including technical and engineering resources, than it does.

The principal competitive factors in the markets in which the Company presently competes and may compete in the future are:

- The ability to provide end-to-end networking solutions and support

- Performance

- Price

- The ability to provide new technologies and products

- The ability to provide value-added features such as security, reliability, and investment protection

- Conformance to standards

- Market presence

- The ability to provide financing

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

RESEARCH AND DEVELOPMENT

The Company has enhanced and extended its product lines with new product and feature introductions in areas including data, voice, and video over IP; wireless access; dial access; enterprise switching; optical transport; storage networking; content networking; security; network management; advanced routing and switching technologies; DSL technologies; cable; and other broadband technologies, among others.

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

The Company's research and development expenditures were $3.92 billion, $2.70 billion, and $1.66 billion in fiscal 2001, 2000, and 1999, respectively. All of the Company's expenditures for research and development costs, as well as in-process research and development of $855 million, $1.37 billion, and $471 million in fiscal 2001, 2000, and 1999, respectively, have been expensed as incurred.

MANUFACTURING

The Company's manufacturing operations primarily consist of quality assurance of materials, components, and subassemblies. Additionally, the Company performs final assembly and test. The Company presently uses a variety of independent third-party companies to perform printed circuit board assembly, in-circuit test, and product repair. The Company and its supply partners install proprietary software on electronically programmable memory chips installed in its systems in order to configure products to customer needs and to maintain quality control and security. The manufacturing process enables the Company to configure the hardware and software in unique combinations to meet a wide variety of individual customer requirements and provide turnkey solutions to its customers. The Company and its supply partners also use automated testing equipment and "burn-in" procedures, as well as comprehensive inspection, testing, and statistical process control, to assure the quality and reliability of its products. The Company's and its partners' manufacturing processes and procedures are ISO 9001 or ISO 9003 certified.

PATENTS, INTELLECTUAL PROPERTY, AND LICENSING

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

The industry in which Cisco competes is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to

Cisco. These claims have increased recently as a result of the Company's acquisitions of businesses and technologies. Such parties have pursued and may in the future assert claims or initiate litigation against the Company or its manufacturers, suppliers, or customers alleging infringement of their proprietary rights with respect to the Company's existing or future products. Regardless of the merit of these claims, they could be time-consuming, result in costly litigation and diversion of technical management personnel, or require Cisco to develop a non-infringing technology or enter into royalty or license agreements. If any infringement or other intellectual property claim made against the Company by any third party is successful, or if the Company fails to develop non-infringing technology or license the proprietary rights, the Company's business could be materially and adversely affected.

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

EMPLOYEES

As of July 28, 2001, the Company employed approximately 38,000 persons, including 7,000 in manufacturing, service and support; 13,000 in engineering; 15,000 in sales and marketing; and 3,000 in finance and administration. Approximately 11,000 employees were in international locations. The Company considers the relationships with its employees to be positive. The Company has not experienced any work stoppages. Competition for technical personnel in the industry in which Cisco competes may be intense. The Company believes that its future success depends in part on its continued ability to hire, assimilate, and retain qualified personnel. To date, Cisco believes that the Company has been successful in recruiting qualified employees, but there is no assurance that the Company will continue to be successful in the future.

RISK FACTORS

Set forth below and elsewhere in this Report and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in the Report.

YOU SHOULD EXPECT THAT OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS

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

- Overall information technology spending

- Changes in general economic conditions and specific market conditions in the communications and networking industries

- Fluctuations in demand for our products and services

- The long sales and implementation cycle for our products and the reduced visibility into our customers' spending plans and associated revenue

- Inventory levels exceeding our requirements based upon future demand forecasts

- Existing network capacity, sharing of existing network capacity, and network capacity utilization rates of our customers

- Price and product competition in the networking industry

- The overall trend toward industry consolidation

- The introduction and market acceptance of new technologies and products, as well as the adoption of new networking standards

- Variations in sales channels, product costs, or mix of products sold

- The timing of orders, timing of shipments, and the ability to satisfy all contractual obligations in customer contracts

- Manufacturing lead times

- The impact of acquired businesses and technologies

- The geographical mix of our revenue and the associated impact on gross margin

- Our ability to achieve targeted cost reductions

- Adverse changes in the public and private equity and debt markets

- The ability of our customers and suppliers to obtain financing or to fund capital expenditures

- The trend toward sales of integrated network solutions

- The timing and amount of employer payroll tax to be paid on employees' gains on stock options exercised

As a consequence, operating results for a particular future period are difficult to predict, especially in recent periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition.

In response to changes in industry and market conditions, we may strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or to dispose of or otherwise exit businesses may result in the recording of accrued liabilities for special one-time charges, such as workforce reduction costs. Additionally, estimates with respect to the useful life and ultimate recoverability of our carrying basis of assets, including goodwill and purchased intangible assets, could change as a result of such assessments and decisions.

WE ARE EXPOSED TO GENERAL ECONOMIC AND MARKET CONDITIONS

Our business is subject to the effects of general economic conditions in the United States and globally, and, in particular, market conditions in the communications and networking industries. In recent quarters, our operating results have been adversely affected as a result of unfavorable economic conditions and reduced capital spending in the United States, Europe, and Asia. In particular, sales to service providers, e-commerce and Internet businesses, and the manufacturing industry in the United States were adversely affected during fiscal 2001. If the economic conditions in the United States and globally do not improve, or if we experience a worsening in the global economic slowdown, we may continue to experience material adverse impacts on our business, operating results, and financial condition.

OPERATING RESULTS FOR A PARTICULAR QUARTER ARE DIFFICULT TO PREDICT

As a result of a variety of factors discussed herein, operating results for a particular quarter are extremely difficult to predict. Our net sales may grow at a slower rate than experienced in previous periods and, in particular periods, may decline. Our ability to meet financial expectations could also be adversely affected if the nonlinear sales pattern seen in certain of our recent quarters recurs in future periods. We generally have had at least one quarter of the fiscal year when backlog has been reduced. Although such reductions have not occurred consistently in recent years, they are difficult to predict and may occur in the future. In addition, in response to customer demand, we continue to attempt to reduce our product manufacturing lead times, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results going forward. On the other hand, for certain products, lead times are longer than our goal. If we cannot reduce manufacturing lead times for such products, our customers may place the same orders within our various sales channels, cancel orders, or not place further orders if shorter lead times are available from other manufacturers.

As a result of our growth in past periods, our fixed costs have increased. With increased levels of spending and the impact of long-term commitments, an inability to meet expected revenue levels in a particular quarter could have a material adverse impact on our operating results for that period as we may not be able to quickly reduce these fixed expenses in response to short-term business changes.

Any of the above factors could have a material adverse impact on our operations and financial results. For example, from time to time, we have made acquisitions that result in in-process research and development expenses being charged in an individual quarter. These charges may occur in any particular quarter resulting in variability in our quarterly earnings. Additionally, the operating results for a quarter could be materially adversely affected if a number of large orders are either not received or are delayed, for example, due to cancellations, delays, or deferrals by customers.

WE EXPECT GROSS MARGIN VARIABILITY OVER TIME

We expect gross margin may be adversely affected by increases in material or labor costs, higher inventory balances, obsolescence charges, loss of cost savings, price competition, and changes in channels of distribution or in the mix of products sold, in particular, optical and access products.

If product or related warranty costs associated with our products are greater than we have experienced, gross margin may be adversely affected. Our gross margin may also be adversely affected by geographic mix, as well as the mix of configurations within each product group. We continue to expand into third-party or indirect-distribution channels, which generally results in a lower gross margin. These distribution channels are generally given privileges to return inventory. In addition, increasing third-party and indirect-distribution channels generally results in greater difficulty in forecasting the mix of our products, and to a certain degree, the timing of orders from our customers.

We plan our operating expense levels primarily based on forecasted revenue levels. Because these expenses are relatively fixed in the short-term, a shortfall in revenue could lead to operating results being below expectations.

WE ARE DEPENDENT UPON ADEQUATE COMPONENT SUPPLY AND MANUFACTURING CAPACITY

Our growth and ability to meet customer demands also depend in part on our capability to obtain timely deliveries of parts from our suppliers. We have experienced component shortages in the past that have adversely affected our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurance that we will not encounter these problems in the future. Although we generally use standard parts and components for our products, certain components are presently available only from a single source or limited sources.

While our suppliers have performed effectively and have been relatively flexible to date, we believe that we may be faced with the following challenges going forward:

- New markets that we participate in may grow quickly and thus, consume significant component capacity

- As we continue to acquire companies and new technologies, we are dependent, at least initially, on unfamiliar supply chains or relatively small supply partners

- We face competition for certain components, which are supply constrained, from existing competitors and companies in other markets

Manufacturing capacity and component supply constraints could be significant issues for us. We use several supply partners to manufacture our products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, we enter into agreements with certain supply partners which allow these partners to procure inventory based upon criteria as defined by us. For additional information regarding our purchase commitments, see Note 9, "Commitments and Contingencies" on pages 36 to 38 of our 2001 Annual Report to Shareholders, which is incorporated by reference herein. A reduction or interruption in supply, a significant increase in the price of one or more components, or a decrease in demand of products could materially adversely affect our business, operating results and financial condition and could materially damage customer relationships.

WE COMPETE IN THE HIGHLY COMPETITIVE TELECOMMUNICATIONS EQUIPMENT MARKET

For additional information regarding our competition, see the section entitled "Competition" contained in Item 1 of this Report.

WE HAVE INVESTED IN AND WILL CONTINUE TO INVEST IN NEW AND EXISTING MARKET OPPORTUNITIES

We have made investments in headcount, inventory, manufacturing capacity, and product development through internal efforts and acquisitions, as a result of growth in existing opportunities and new or emerging opportunities in our target markets over the past years. We will continue to invest in these markets either through additional investments or through re-alignment of existing resources.

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

Our operating results may depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the costs to produce existing products. The success of new products is dependent on several factors, including proper new product definition, product cost, timely completion and introduction of new products, differentiation of new products from those of our competitors, and market acceptance of these products. The markets for our products are characterized by rapidly changing technology, evolving industry standards, new product introductions, and evolving methods of building and operating networks. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, and achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

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

A substantial portion of our business and revenue depends on the continued growth of the Internet and on the deployment of our products by customers that depend on the growth of the Internet. As a result of the economic slowdown and the reduction in capital spending, spending on Internet infrastructure has declined, which has had a material adverse effect on our business. To the extent that the economic slowdown and reduction in capital spending continue to adversely affect spending on Internet infrastructure, we could continue to experience material adverse effects on our business, operating results, and financial condition.

We believe that there will be certain performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility. As we are a large supplier of networking products, we may be materially adversely affected, regardless of whether or not these problems are due to the performance of our products. Such an event could also result in a material adverse effect on the market price of our common stock and could materially adversely affect our business, operating results, and financial condition.

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

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

- Difficulties in integrating the operations, technologies, and products of the acquired companies

- The risk of diverting management's attention from normal daily operations of the business

- Potential difficulties in completing projects associated with in-process research and development

- Risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions

- Initial dependence on unfamiliar supply chains or relatively small supply partners

- Insufficient revenues to offset increased expenses associated with acquisitions

- The potential loss of key employees of the acquired companies

Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. We must also manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions we make could harm our business and operating results in a material way.

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

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

SALES TO THE SERVICE PROVIDER MARKET ARE SUBJECT TO VARIATION

Sales to the service provider market have been characterized by large and often sporadic purchases. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures, the availability of funding, and the extent that service providers are affected by regulatory, economic, and business conditions in the country of operations. A decline or delay in sales orders from this industry could have a material adverse effect on our business, operating results, and financial condition. The slowdown in the general economy, changes in the service provider market, and the constraints on capital availability have had a material adverse effect on many of our service provider customers, with a number of such customers going out of business or substantially reducing their expansion plans. These conditions have had a material adverse effect on our business and operating results, and we expect that these conditions may continue for the foreseeable future.

THE INDUSTRY IN WHICH WE COMPETE IS SUBJECT TO CONSOLIDATION

There has been a trend toward industry consolidation for several years. We expect this trend toward industry consolidation to continue as companies attempt to strengthen or hold their market positions in an evolving industry. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in operating results as we compete to be a single vendor solution and could have a material adverse effect on our business, operating results, and financial condition.

OUR BUSINESS IS SUBJECT TO RISKS FROM INTERNATIONAL OPERATIONS

We conduct business globally. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; regulatory, political, or economic conditions in a specific country or region; trade protection measures and other regulatory requirements; service provider and government spending patterns; and natural disasters. Any or all of these factors could have a material adverse impact on our future international business.

WE ARE EXPOSED TO FLUCTUATIONS IN THE EXCHANGE RATES OF FOREIGN CURRENCY

As a global concern, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Historically, our primary exposures have related to nondollar-denominated sales in Japan, Canada, and Australia and nondollar-denominated operating expenses in Europe, Latin America, and Asia where we sell primarily in U.S. dollars. Additionally, we have exposures to emerging market currencies which have extreme currency volatility. We will continue to monitor our exposure and may hedge against these or any other emerging market currencies as necessary.

The increasing use of the euro as a common currency for members of the European Union could impact our foreign exchange exposure. We are currently hedging against fluctuations with the euro and will continue to evaluate the impact of the euro on our future foreign exchange exposure as well as on our internal systems. At the present time, we hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and periodically will hedge anticipated foreign currency cash flows. The hedging activity undertaken by us is intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities.

WE ARE EXPOSED TO THE CREDIT RISK OF SOME OF OUR CUSTOMERS AND TO CREDIT EXPOSURES IN WEAKENED MARKETS

A portion of our sales is derived through our resellers in two-tier distribution channels. These resellers/customers are generally given privileges to return inventory, receive credits for changes in selling prices, and participate in cooperative marketing programs. We maintain estimated accruals and allowances for such exposures. However, such resellers tend to have access to more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk. We have experienced increased demands for customer financing, including loan financing and leasing solutions. We expect demands for customer financing may continue. We believe customer financing is a competitive factor in obtaining business, particularly in supplying customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products but also providing additional funds for soft costs associated with network installation and integration of our products and for working capital purposes. Due to the current slowdown in the economy, the credit risks relating to these resellers/customers have increased. Although we have programs in place to monitor and mitigate the associated risk, there can be no assurance that such programs will be effective in reducing our credit risks. We also continue to monitor credit exposures from weakened financial conditions in certain geographic regions, and the impact that such conditions may have on the worldwide economy. We have experienced losses due to customers failing to meet their obligations. Although these losses have not been significant, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition.

OUR BUSINESS DEPENDS UPON OUR PROPRIETARY RIGHTS AND THERE IS A RISK OF INFRINGEMENT

For additional information regarding our proprietary rights, see the section entitled "Patents, Intellectual Property, and Licensing" contained in Item 1 of this Report.

WE FACE RISKS FROM THE UNCERTAINTIES OF REGULATION OF THE INTERNET

There are currently few laws or regulations that apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate on technology such as voice over the Internet, encryption technology, and access charges for Internet service providers. Our business could be materially adversely affected by the changes in the regulations surrounding the telecommunications industry. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products, and at the same time increase the cost of selling our products, which could have a material adverse effect on our business, operating results, and financial condition.

OUR SUCCESS LARGELY DEPENDS ON OUR ABILITY TO RETAIN AND RECRUIT KEY PERSONNEL

Our success has always depended in large part on our ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. In spite of the economic slowdown, competition for these personnel is intense, especially in the Silicon Valley area of Northern California. Volatility or lack of positive performance in our stock price may also adversely affect our ability to retain key employees, all of whom have been granted stock options. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could make it difficult to meet key objectives, such as timely product introductions. In addition, companies in the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

WE FACE CERTAIN LITIGATION RISKS

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, results of operations, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 3, "Legal Proceedings" contained in Part I of this Report.

OUR BUSINESS IS SUBJECT TO THE RISKS OF EARTHQUAKES, FLOODS, AND OTHER CATASTROPHIC EVENTS

Our corporate headquarters, including certain of our research and development operations and our manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, certain of our facilities, which include one of our manufacturing facilities, are located near rivers that have experienced flooding in the past. A significant natural disaster, such as an earthquake or a flood, could have a material adverse impact on our business, operating results, and financial condition. In addition, despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results, and financial condition. In addition, the effects of war or acts of terrorism could have a material adverse effect on our business, operating results, and financial condition

THE ENERGY CRISIS IN CALIFORNIA COULD DISRUPT OUR BUSINESS AND THE BUSINESSES OF OUR SUPPLIERS AND SUPPLY PARTNERS AND COULD INCREASE OUR EXPENSES

The western United States (and California in particular) has experienced repeated episodes of diminished electrical power supply, and we anticipate that this situation could continue or worsen in the near future. As a result of these episodes, certain of our operations or facilities have been and may continue to be subject to "rolling blackouts" or other unscheduled interruptions of electrical power. The prospect of such unscheduled interruptions may continue for the foreseeable future, and we are unable to predict their occurrence or duration. Certain of our suppliers and supply partners are also located in this area and their operations may also be materially and adversely affected by such interruptions. These suppliers and manufacturers may be unable to manufacture sufficient quantities of our products to meet our demands, or they may increase the costs of such products, which in turn could have a material adverse effect on our business or results of operations.

WE ARE EXPOSED TO FLUCTUATIONS IN THE MARKET VALUES OF OUR PORTFOLIO INVESTMENTS AND IN INTEREST RATES

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available for sale and, consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Part of this portfolio includes minority equity investments in several publicly traded companies, the values of which are subject to market price volatility. For example, as a result of market price volatility of our publicly traded equity investments, we experienced a $5.76 billion ($3.81 billion, net of tax) decrease in net unrealized gains during fiscal 2001 on these investments. As of July 28, 2001, our publicly traded equity investments had gross unrealized losses of $784 million. Recent events have adversely affected the public equities market and general economic conditions may continue to worsen. As a result, subsequent to fiscal 2001, we may recognize in earnings declines in fair value of our publicly traded equity investments below the cost basis that are considered to be other-than-temporary.

For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, see the section titled "Quantitative and Qualitative Disclosures About Market Risk" on pages 21 to 22 of our 2001 Annual Report to Shareholders, which is incorporated by reference herein.

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

The SEC has been reviewing registrants' valuation methodologies of in-process research and development related to business combinations. We believe we are in compliance with all of the existing rules and related guidance as applicable to our business operations. However, the SEC may change these rules or issue new guidance applicable to our business in the future. There can be no assurance that the SEC will not seek to reduce the amount of in-process research and development previously expensed by us. This would result in the restatement of our previously filed financial statements and could have a material adverse effect on our operating results and financial condition for periods subsequent to the acquisitions.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH STRATEGIC ALLIANCES

We have a number of strategic alliances with large and complex organizations and our ecosystem partners. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. If successful, these relationships may be mutually beneficial and result in industry growth. However, these alliances carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic alliance and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties.

WE FACE RISKS ASSOCIATED WITH CHANGES IN TELECOMMUNICATIONS REGULATION AND TARIFFS

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

OUR STOCK PRICE MAY BE VOLATILE

Our common stock has experienced substantial price volatility, particularly as a result of variations between our actual or anticipated financial results, the published expectations of analysts, and as a result of announcements by our competitors and us. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, in particular, and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our common stock in the future. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options.

ITEM 2. PROPERTIES

The Company's headquarters is located on leased premises in San Jose, California. The Company has certain other operating leases for sites, both completed and under construction, which include additional manufacturing facilities, in the surrounding areas of San Jose, California; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina.

The Company also leases office space in other U.S. locations, as well as locations in the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. For additional information regarding the Company's obligations under leases, see Note 9, "Commitments and Contingencies" on pages 36 to 38 of the Company's 2001 Annual Report to Shareholders, which is incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Beginning on April 20, 2001, a number of purported shareholder class action lawsuits have been filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The lawsuits are essentially identical, and purport to bring suit on behalf of those who purchased the Company's publicly traded securities between August 10, 1999 and April 16, 2001. Plaintiffs allege that defendants made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. The Company believes the claims are without merit and intends to defend the actions vigorously.

In addition, beginning on April 23, 2001, a number of purported shareholder derivative lawsuits have been filed in the Superior Court of California, County of Santa Clara, against the Company (as a nominal defendant), its directors and certain officers. At least two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and another has been filed in the Superior Court of California, County of San Mateo. The complaints in the various derivative actions include claims for breach of fiduciary duty, waste of corporate assets, mismanagement, unjust enrichment and violations of the California Corporations Code, seek compensatory and other damages, disgorgement and other relief, and are based on essentially the same allegations as the class actions.

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

None.

PART II

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

The information required by this Item is incorporated by reference to page 47 of the Company's 2001 Annual Report to Shareholders.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 13 of the Company's 2001 Annual Report to Shareholders.

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

The information required by this Item is incorporated by reference to pages 14 to 20 of the Company's 2001 Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is incorporated by reference to pages 21 to 22 of the Company's 2001 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 23 to 47 of the Company's 2001 Annual Report to Shareholders.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information regarding Directors appearing under the caption "Election of Directors" in the Company's Proxy Statement related to the Annual Meeting of Shareholders to be held on November 13, 2001, which information is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITION	POSITION HELD SINCE
Larry R. Carter	58	Senior Vice President, Finance and Administration, Chief Financial Officer, Secretary, and Director	1997
		Mr. Carter was elected to the Board of Directors in July 2000. He joined the Company in January 1995 as Vice President for Finance and Administration, Chief Financial Officer, and Secretary. In July 1997, he was promoted to his present position of Senior Vice President for Finance and Administration, Chief Financial Officer, and Secretary. Prior to his services with the Company, he was with Advanced Micro Devices, Inc. as the Vice President and Corporate Controller. Mr. Carter currently serves on the Board of Directors of eSpeed, Inc., Network Appliance, Inc., QLogic Corporation, and Transmeta Corporation; and is on the Board of Trustees for Loyola Marymount University.	
John T. Chambers	52	President, Chief Executive Officer, and Director	1995
		Mr. Chambers has been a member of the Board of Directors since November 1993. He joined the Company as Senior Vice President in January 1991 and became Executive Vice President in June 1994. Mr. Chambers became President and Chief Executive Officer of the Company as of January 31, 1995. Prior to his services with the Company, he was with Wang Laboratories for eight years, most recently as Senior Vice President of U.S. Operations. Mr. Chambers currently serves on the Board of Directors of Wal-Mart Stores, Inc.	
Charles H. Giancarlo	43	Senior Vice President and General Manager	2001
		Mr. Giancarlo joined the Company in December 1994 as Director of Business Development. He was promoted to Vice President in September 1995. He was Vice President of Global Alliances from April 1997 to April 1999 and promoted to Senior Vice President in April 1998. In April 1999, he was promoted to Senior Vice President, Commercial Line of Business. In August 2001, he was promoted to his current position of Senior Vice President and General Manager of Access Aggregation, Ethernet Switching, and Wireless Business Groups. Prior to Cisco, he was Vice President of Marketing with Kalpana Corporation from July 1993. Kalpana was acquired by Cisco in December 1994.	
Richard J. Justice	51	Senior Vice President, Worldwide Field Operations	2000
		Mr. Justice joined the Company in December 1996 as Senior Vice President of the Americas. In February 2000, he was promoted to Senior Vice President of Worldwide Field Operations. Prior to Cisco, Mr. Justice spent 22 years at Hewlett Packard Company where in his last role, he was responsible for Worldwide Enterprise Sales and Marketing.	

Mario Mazzola	55	Senior Vice President, Chief Development Officer	2001
		Mr. Mazzola joined the Company in September 1993 as Vice President and General Manager of the Workgroup Business Unit. He was promoted to Senior Vice President of the Enterprise Line of Business in April 1997. In August 2001, he was promoted to his current position of Senior Vice President, Chief Development Officer. Prior to Cisco, he was President and CEO of Crescendo Communications, Inc. from 1990. Crescendo was acquired by Cisco in September 1993.	
Carl Redfield	54	Senior Vice President, Manufacturing and Worldwide Logistics	1997
		Mr. Redfield joined the Company in June 1993 as Vice President of Manufacturing and Logistics. Mr. Redfield became Senior Vice President, Manufacturing and Logistics in February 1999. Prior to joining Cisco, he spent 17 years at Digital Equipment Company, most recently as Senior Director of Manufacturing and Logistics for the personal computer division. Mr. Redfield currently serves on the Board of Directors of CTC Communications, iBasis, Broadwing Corp., and VA Linux Systems.	
James Richardson	44	Senior Vice President, Chief Marketing Officer	2001
		Mr. Richardson joined the Company in May 1990, founding the Company's Canadian operations and became Vice President of Intercontinental Operations in June 1992. Mr. Richardson became Vice President of North American Operations in July 1994. Mr. Richardson became President of EMEA and Senior Vice President in August 1996. In April 2000, he was named Senior Vice President of the Enterprise Line of Business and Internet Communications Software Group. In August 2001, Mr. Richardson was named to his current position of Chief Marketing Officer.	
Michelangelo Volpi	34	Senior Vice President, Internet Switching and Services	2001
		Mr. Volpi joined the Company in August 1994 as Business Development Manager and was appointed to Director of Business Development in April 1996. Mr. Volpi became Vice President of Business Development in April 1997 and Senior Vice President of Business Development/Global Alliances in June 1999. In April 2000, Mr. Volpi was named Senior Vice President, Chief Strategy Officer, adding the corporate strategy role to his prior responsibilities, which included managing the Business Development and Strategic Alliance organizations. In August 2001, Mr. Volpi was named to his current position of Senior Vice President, Internet Switching and Services. Prior to Cisco, Mr. Volpi spent three years at Hewlett Packard's Optoelectonics Division, holding numerous engineering and product marketing management positions.	

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the caption "Executive Compensation and Related Information" in the Company's Proxy Statement related to the Annual Meeting of Shareholders to be held on November 13, 2001, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under the captions "Election of Directors" and "Ownership of Securities" in the Company's Proxy Statement related to the Annual Meeting of Shareholders to be held on November 13, 2001, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the caption "Ownership of Securities" and "Executive Compensation and Related Information" in the Company's Proxy Statement related to the Annual Meeting of Shareholders to be held on November 13, 2001, is incorporated herein by reference.

PART IV

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

(a) 1. Financial Statements

The financial statements listed in Item 14(a) are filed or incorporated herein by reference as part of this Report. See Index to Financial Statements and Financial Statement Schedule on Page 29.

2. Financial Statement Schedule

The financial statement schedule listed in Item 14(a) is filed as part of this Report. See Index to Financial Statements and Financial Statement Schedule on Page 29.

3. Exhibits

The exhibits listed in the accompanying Index to Exhibits on pages 34 to 36 are filed or incorporated by reference as part of this Annual Report.

(b) Reports on Form 8-K

The Company filed two reports on Form 8-K during the quarter ended July 28, 2001. Information regarding the items reported on is as follows:

Date	Item Reported On
May 11, 2001	The Company reported its third quarter results for the period ending April 28, 2001.
July 12, 2001	The Company announced the acquisition of AuroraNetics, Inc., which was completed on August 22, 2001.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

ITEM 14(a)

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	Balance at Beginning of Period	Charged to Expenses or Other Accounts	Deductions	Balance at End of Period
Year ended July 31, 1999:				
Allowance for doubtful accounts	$ 40	$ 19	$ 32	$ 27
Allowance for excess and obsolete inventory	$ 144	$ 151	$ 144	$ 151
Year ended July 29, 2000:				
Allowance for doubtful accounts	$ 27	$ 40	$ 24	$ 43
Allowance for excess and obsolete inventory	$ 151	$ 339	$ 95	$ 395
Valuation allowance for deferred tax assets	--	$ 299	--	$ 299
Year ended July 28, 2001:				
Allowance for doubtful accounts	$ 43	$ 268	$ 23	$ 288
Allowance for excess and obsolete inventory	$ 395	$2,775	$ 891	$2,279
Valuation allowance for deferred tax assets	$ 299	--	$ 299	--

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated August 7, 2001 appearing in the 2001 Annual Report to Shareholders of Cisco Systems, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 7, 2001

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California on this 21st day of September, 2001.

Cisco Systems, Inc.

/s/ John T. Chambers

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John T. Chambers John T. Chambers	President and Chief Executive Officer (Principal Executive Officer and Director)	September 21, 2001
/s/ Larry R. Carter Larry R. Carter	Senior Vice President, Finance and Administration, Chief Financial Officer, Secretary, and Director (Principal Financial and Accounting Officer)	September 21, 2001
/s/ John P. Morgridge John P. Morgridge	Chairman of the Board and Director	September 21, 2001
/s/ Donald T. Valentine Donald T. Valentine	Vice Chairman of the Board and Director	September 21, 2001
/s/ Carol A. Bartz Carol A. Bartz	Director	September 21, 2001

/s/ Mary Cirillo -------------------------------- Mary Cirillo	Director	September 21, 2001
/s/ Carly Fiorina -------------------------------- Carly Fiorina	Director	September 21, 2001
/s/ James F. Gibbons -------------------------------- Dr. James F. Gibbons	Director	September 21, 2001
/s/ Edward R. Kozel -------------------------------- Edward R. Kozel	Director	September 21, 2001
/s/ James C. Morgan -------------------------------- James C. Morgan	Director	September 21, 2001
/s/ Arun Sarin -------------------------------- Arun Sarin	Director	September 21, 2001
/s/ Steven M. West -------------------------------- Steven M. West	Director	September 21, 2001
/s/ Jerry Yang -------------------------------- Jerry Yang	Director	September 21, 2001

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Articles of Incorporation of Cisco Systems, Inc., as currently in effect (1)
3.2	Amended and Restated Bylaws of Cisco Systems, Inc., as currently in effect (1)
4.1	Rights Agreement dated as of June 10, 1998 between Cisco Systems, Inc. and Bank Boston, N.A. (2)
4.2	First Amendment to the Rights Agreement and Certification of Compliance with Section 27 Thereof between Cisco Systems, Inc. and Fleet National Bank (f/k/a Bank Boston, N.A.) (3)
10.2*	Cisco Systems, Inc. Amended and Restated 1996 Stock Incentive Plan (4)
10.3*	1997 Supplemental Stock Incentive Plan (including the following: Stock Option Agreement in connection with the 1997 Supplemental Stock Incentive Plan) (5)
10.12*	Senior Management Incentive Plan-Fiscal Year 2001 (3)
10.13*	Cisco Systems, Inc. 1989 Employee Stock Purchase Plan (6)
10.14	Master Lease (Cisco Technology, Inc. Trust 1998), dated as of June 2, 1998 between State Street Bank and Trust Company of California, N.A., not in its individual capacity, but solely as Certificate Trustee, as Lessor, and Cisco Technology, Inc., as Lessee, and General Guarantee (Cisco Technology, Inc. Trust 1998) from Cisco Systems, Inc., dated as of June 2, 1998 and a Participant Guarantee (Cisco Technology, Inc. Trust 1998) from Cisco Systems, Inc., dated as of June 2, 1998 (7)
10.23	Lease Agreement between the Company and SGA Development Partnership, Ltd., dated February 19, 1993, for the Company's site in San Jose, California (8)
10.24	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated May 13, 1993 for the Company's facilities in San Jose, California (8)
10.25	Lease Agreement between the Company and SGA Development Partnership, Ltd., dated February 19, 1993, for the Company's site in San Jose, California (8)
10.27	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated July 11, 1994 for the Company's site in Wake County, North Carolina (8)
10.28	Lease Agreement between the Company and Sumitomo Bank Leasing and Finance, Inc., dated August 12, 1994 for the Company's facilities in Wake County, North Carolina (8)
10.29	Lease (Buildings "I" and "J") by and between Sumitomo Bank of New York Trust Company ("SBNYTC") as trustee under that certain Trust Agreement dated May 22, 1995 between Sumitomo Bank Leasing and Finance, Inc. and SBNYTC ("SB Trust"), as Landlord, and the Company, as tenant, dated May 22, 1995 (8)
10.30	First Amendment to Lease (Buildings "I" and "J") between SB Trust and the Company, dated July 18, 1995 (8)
10.31	Lease (Buildings "K" and "L") by and between SB Trust and the Company, dated May 22, 1995 (8)

10.32	First Amendment to Lease (Buildings "K" and "L") between SB Trust and the Company, dated July 18, 1995 (8)
10.33	Lease (Improvements Phase "C") between SB Trust and the Company, dated May 22, 1995 (8)
10.34	First Amendment to Lease (Improvements Phase "C") between SB Trust and the Company, dated July 18, 1995 (8)
10.35	Ground Lease (Parcel 2 and Lot 54) by and between Irish Leasing Corporation ("Irish"), as Landlord, and the Company, as Tenant, dated February 28, 1995 for the Company's site in San Jose, California (8)
10.36	First Amendment to Lease (Parcel 2 and Lot 54) by and between Irish and the Company dated as of May 1, 1995 (8)
10.37	Second Amendment to Lease (Parcel 2 and Lot 54) by and between Irish and the Company dated as of May 22, 1995 (8)
10.38	Ground Lease (Lots 58 and 59) by and between Irish and the Company dated February 28, 1995 for the Company's site in San Jose, California (8)
10.39	First Amendment to Lease (Lots 58 and 59) by and between Irish and the Company dated as of May 1, 1995 (8)
10.40	Second Amendment to Lease (Lots 58 and 59) by and between Irish and the Company dated as of May 22, 1995 (8)
10.41	Ground Lease (Tasman Phase C) by and between Irish and the Company dated April 12, 1995 for the Company's site in San Jose, California (8)
10.42	First Amendment to Lease (Tasman Phase C) by and between Irish and the Company dated as of May 1, 1995 (8)
10.43	Second Amendment to Lease (Tasman Phase C) by and between Irish and the Company dated as of May 22, 1995 (8)
10.46	Second Amendment to Lease between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated February 24, 1998, for the Company's site in San Jose, California (9)
10.47	First Amendment to the Lease between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated July 10, 1999 (9)
10.48	Second Amendment to Ground Lease (North Carolina) between Sumitomo Bank Leasing and Finance, Inc. and the Company, dated July 10, 1999 (9)
10.52	Master Lease between the Company, as the Lessee, and UBS MORTGAGE FINANCE INC. as the Lessor, dated December 27, 1996 (10)
10.53	Credit Agreement dated as of July 2, 1997 among Cisco Systems, Inc., and Citicorp USA, Inc., as Administrative Agent, Morgan Guaranty Trust Company of New York, as Documentation Agent, Bank of America National Trust and Savings Association, the Chase Manhattan Bank, as Co-Agents, and Citicorp Securities, Inc. and J.P. Morgan Securities Inc. Arrangers (10)
10.54	Second Amendment to Lease between Cisco Systems, Inc. and Sumitomo Bank Leasing and Finance, Inc., dated February 24, 1998 (11)
10.55	Third Amendment to Lease between SGA Development Partnership, LTD. and Cisco Systems, Inc., dated February 24, 1998 (11)
13	Pages 13 to 47 of the Registrant's 2001 Annual Report to Shareholders
21.01	Subsidiaries of the Company
23.02	Consent of Independent Accountants

(1) Incorporated by reference to our registration statement on Form S-3, No. 333-56004, filed on February 21, 2001.

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

(3) Incorporated by reference to the exhibits with the corresponding exhibit numbers in the Company's Annual Report on Form 10-K for the fiscal year ended July 29, 2000.

(4) Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 1999.

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

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

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

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

(9) Incorporated by reference to exhibits with the corresponding exhibit numbers of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 1999.

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

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

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

EXHIBIT 13

SELECTED FINANCIAL DATA
Five Years Ended July 28, 2001 (In millions, except per-share amounts)

	July 28, 2001	July 29, 2000	July 31, 1999	July 25, 1998	July 26, 1997
Net sales	$22,293	$18,928	$12,173	$ 8,489	$ 6,452
Net income (loss)(1)	$(1,014)	$ 2,668	$ 2,023	$ 1,331	$ 1,047
Net income (loss) per share--basic	$ (0.14)	$ 0.39	$ 0.30	$ 0.21	$ 0.17
Net income (loss) per share--diluted(1)(2)	$ (0.14)	$ 0.36	$ 0.29	$ 0.20	$ 0.17
Shares used in per-share calculation--basic	7,196	6,917	6,646	6,312	6,007
Shares used in per-share calculation--diluted(2)	7,196	7,438	7,062	6,658	6,287
Total assets	$35,238	$32,870	$14,893	$ 9,043	$ 5,504

Note 1: Cisco provides pro forma net income and pro forma net income per share
data as an alternative for understanding its operating results. These measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from pro forma measures used by other companies. Pro forma net income and pro forma net income per share--diluted are calculated as follows:

	July 28, 2001	July 29, 2000	July 31, 1999	July 25, 1998	July 26, 1997
Net income (loss)	$(1,014)	$ 2,668	$ 2,023	$ 1,331	$ 1,047
In-process research and development	855	1,373	471	594	508
Payroll tax on stock option exercises(3)	55	51	--	--	--
Acquisition-related costs	--	62	16	--	--
Amortization of deferred stock-based compensation(4)	155	--	--	--	--
Amortization of goodwill and purchased intangible assets	1,055	291	61	23	11
Net gains realized on minority investments	(190)	(531)	--	(5)	(152)
Restructuring costs and other special charges	1,170	--	--	--	--
Excess inventory charge	2,249	--	--	--	--
Excess inventory benefit	(187)	--	--	--	--
Income tax effect	(1,062)	--	(54)	(67)	7
Pro forma net income	$ 3,086	$ 3,914	$ 2,517	$ 1,876	$ 1,421
Pro forma net income per share--diluted(2)	$ 0.41	$ 0.53	$ 0.36	$ 0.28	$ 0.23
Shares used in per-share calculation--diluted(2)	7,544	7,438	7,062	6,658	6,287

Note 2: Diluted net income per share is computed using the weighted-average
number of common shares and dilutive potential common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and excludes dilutive potential common shares, as their effect is antidilutive. The dilutive potential common shares which were antidilutive for fiscal 2001 amounted to 348 million shares.

Note 3: Payroll tax on stock option exercises of $55 million for fiscal 2001 was
allocated to research and development ($21 million), sales and marketing ($30 million), and general and administrative ($4 million) expenses in the Consolidated Statements of Operations. Payroll tax on stock option exercises of $51 million for fiscal 2000 was allocated to research and development ($19 million), sales and marketing ($29 million), and general and administrative ($3 million) expenses in the Consolidated Statements of Operations.

Note 4: Amortization of deferred stock-based compensation of $155 million was
allocated to research and development ($123 million), sales and marketing ($26 million), and general and administrative ($6 million) expenses in the Consolidated Statements of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report, including, without limitation, statements containing the words "believes," "anticipates," "estimates," "expects," "projections," and words of similar import, constitute "forward-looking statements." You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks faced by us described in the Risk Factors sections, among others, included in the documents we file with the Securities and Exchange Commission ("SEC"), including our most recent reports on Form 10-K, Form 8-K, and Form 10-Q, and amendments thereto.

COMPARISON OF FISCAL 2001 AND 2000

The net sales and gross margin for fiscal 2001 and 2000 were as follows (in millions, except percentages):

	NET SALES		GROSS MARGIN	
Years Ended	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Product	$19,559	$17,002	47.9%	64.9%
Service	2,734	1,926	62.6%	59.7%
Total	$22,293	$18,928	49.7%	64.4%

Net product revenue in fiscal 2001 increased by 15.0% from fiscal 2000. The increase in net product revenue was primarily a result of increased unit sales of router and switch products; growth in the sales of add-on boards that provide increased functionality; and optical transport products (see Note 13 to the Consolidated Financial Statements).

Product gross margin in fiscal 2001 decreased to 47.9% from 64.9% in fiscal 2000 primarily due to an additional excess inventory charge as discussed below. The decrease in product gross margin was also due to lower shipment volumes and related manufacturing overhead; shifts in product mix; higher production-related costs; and the pricing pressure seen from competitors in certain product areas. We recorded a provision for inventory, including purchase commitments, totaling $2.77 billion in fiscal 2001, which included an additional excess inventory charge. The excess inventory charge recorded in the third quarter of fiscal 2001 was $2.25 billion. This excess inventory charge was subsequently reduced in the fourth quarter of fiscal 2001 by a $187 million benefit primarily related to lower settlement charges for purchase commitments. As of July 28, 2001, $572 million of the excess inventory reserve has been used. The provision for inventory in fiscal 2000 was $339 million. The following is a summary of the usage and the remaining excess inventory reserve as of July 28, 2001 (in millions):

	Excess Inventory Reserve	Excess Inventory Benefit
Additional excess inventory charge	$2,249	$ --
Usage:		
Inventory scrapped	(105)	--
Sale of inventory	(89)	9
Inventory utilized	(49)	49
Settlement of purchase commitments	(329)	129
	(572)	$ 187
Remaining reserve balance as of July 28, 2001	$1,677	

Inventory purchases and commitments are based upon future demand forecasts. To mitigate the component supply constraints that have existed in the past, we built inventory levels for certain components with long lead times and entered into commitments for certain components. Due to a sudden and significant decrease in demand for our products, inventory levels exceeded our estimated requirements based on demand forecasts. This additional excess inventory charge was calculated in accordance with our accounting policy. We do not currently anticipate the excess inventory subject to this provision will be used at a later date based on our current demand forecast.

Net service revenue in fiscal 2001 increased by 42.0% from fiscal 2000. Service revenue is generally deferred and, in most cases, recognized ratably over the service period obligations, which are typically one to three years. The increase in net service revenue was primarily related to an increase in product sales and installed base of equipment needing maintenance support. The increase in service gross margin was primarily due to increased cost efficiencies in our technical assistance centers.

We manage our business based on four geographic theaters: the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. Financial information by theater for fiscal 2001 and 2000 is summarized in the following table (in millions, except percentages):

	AMOUNTS		PERCENTAGE OF NET SALES	
Years Ended	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Net sales:				
Americas	$ 15,130	$ 12,924	67.9%	68.3%
EMEA	6,288	4,770	28.2%	25.2%
Asia Pacific	2,384	1,705	10.7%	9.0%
Japan	1,540	935	6.9%	4.9%
Sales adjustments	(3,049)	(1,406)	(13.7%)	(7.4%)
Total	$ 22,293	$ 18,928	100.0%	100.0%

The following table shows the standard margins for each theater and the total gross margin (in millions, except percentages):

	AMOUNTS		STANDARD MARGIN	
Years Ended	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Gross margin:				
Americas	$ 11,040	$ 9,412	73.0%	72.8%
EMEA	4,737	3,581	75.3%	75.1%
Asia Pacific	1,665	1,215	69.8%	71.3%
Japan	1,199	737	77.9%	78.8%
Standard margin	18,641	14,945		
Sales adjustments	(3,049)	(1,406)		
Cost of sales adjustments	581	512		
Production overhead	(615)	(455)		
Manufacturing variances and other related costs	(4,486)	(1,414)		
Total	$ 11,072	$ 12,182		

The net sales and standard margins by geographic theater differ from the amounts recognized under generally accepted accounting principles because we do not allocate certain sales adjustments, cost of sales adjustments, production overhead, and manufacturing variances and other related costs to the theaters. Sales adjustments primarily relate to reserves for leases and structured loans, deferred revenue, two-tier distribution, and other timing differences.

Standard margins remained relatively constant for all geographic theaters as compared with fiscal 2000. Standard margins vary due to a number of reasons including, but not limited to, shifts in product mix, sales discounts, and sales channels.

We expect gross margin may be adversely affected by increases in material or labor costs, higher inventory balances, obsolescence charges, loss of cost savings, price competition, and changes in channels of distribution or in the mix of products sold, in particular, optical and access products. If product or related warranty costs associated with our products are greater than we have experienced, gross margin may also be adversely affected. Our gross margin may also be adversely affected by geographic mix, as well as the mix of configurations within each product group. We continue to expand into third-party or indirect-distribution channels, which generally results in a lower gross margin. These distribution channels are generally given privileges to return inventory. In addition, increasing third-party and indirect-distribution channels generally results in greater difficulty in forecasting the mix of our product, and to a certain degree, the timing of orders from our customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Research and development ("R&D"), sales and marketing, and general and administrative ("G&A") expenses are summarized in the following table (in millions, except percentages):

	AMOUNTS		PERCENTAGE OF NET SALES	
Years Ended	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Research and development	$3,922	$2,704	17.6%	14.3%
Sales and marketing	$5,296	$3,946	23.8%	20.8%
General and administrative	$ 778	$ 633	3.5%	3.3%

R&D, sales and marketing, and G&A expenses as a percentage of net sales for fiscal 2001 have increased compared with the prior fiscal year primarily due to the decline in net sales during the second half of fiscal 2001.

R&D expenses in fiscal 2001 increased by 45.0% from fiscal 2000. The increase reflected R&D efforts in a wide variety of areas such as data, voice, and video over IP; wireless access; dial access; enterprise switching; optical transport; storage networking; content networking; security; network management; advanced routing and switching technologies; digital subscriber line ("DSL") technologies; cable; and other broadband technologies, among others. A significant portion of the increase was due to the addition of new personnel, partly through acquisitions, as well as higher expenditures on prototypes and depreciation on additional lab equipment. We also continued to purchase technology in order to bring a broad range of products to the market in a timely fashion. If we believe that we are unable to enter a particular market in a timely manner with internally developed products, we may license technology from other businesses or acquire businesses as an alternative to internal R&D. All of our R&D costs have been expensed as incurred.

Sales and marketing expenses in fiscal 2001 increased by 34.2% from fiscal 2000. The increase in sales and marketing expenses was principally due to an increase in the size of our direct sales force and related commissions, additional marketing and advertising investments associated with existing and new product introductions, the expansion of distribution channels and markets, and general corporate branding. The increase also reflected our efforts to invest in certain key areas, such as expansion of our end-to-end networking strategy and service provider coverage, in order to be positioned to take advantage of future market opportunities.

G&A expenses in fiscal 2001 increased by 22.9% from fiscal 2000. The increase in G&A expenses was primarily related to the addition of new personnel and investments in infrastructure.

Amortization of goodwill and purchased intangible assets included in operating expenses was $1.05 billion in fiscal 2001, compared with $291 million in fiscal 2000. Amortization of goodwill and purchased intangible assets primarily relates to various purchase acquisitions (see Note 3 and Note 5 to the Consolidated Financial Statements). In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. We are currently assessing the impact of SFAS 142 on our operating results and financial condition. We expect the amortization of identifiable purchased intangible assets to increase if we continue to acquire companies and technologies.

The amount expensed to in-process research and development ("in-process R&D") arose from the purchase acquisitions (see Note 3 to the Consolidated Financial Statements). The fair values of the existing purchased technology and patents, as well as the technology currently under development, were determined using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations were typically derived from a weighted-average cost of capital analysis and venture capital surveys, adjusted upward to reflect additional risks inherent in the development life cycle. We consider the pricing model for products related to these acquisitions to be standard within the high-technology communications equipment industry. However, we do not expect to achieve a material amount of expense reductions or synergies as a result of integrating the acquired in-process technology. Therefore, the valuation assumptions do not include significant anticipated cost savings.

The development of these technologies remains a significant risk due to the remaining effort to achieve technical viability, rapidly changing customer markets, uncertain standards for new products, and significant competitive threats from numerous companies. The nature of the efforts to develop these technologies into commercially viable products consists principally of planning, designing, experimenting, and testing activities necessary to determine that the technologies can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets and could have a material adverse impact on our business and operating results.

The following table summarizes the key assumptions underlying the valuations for our significant purchase acquisitions completed in fiscal 2001 and 2000 (in millions, except percentages):

Acquired Company	Estimated Cost to Complete Technology at Time of Acquisition	Risk-Adjusted Discount Rate for In-Process R&D
FISCAL 2001		
IPmobile, Inc.	$15	42.5%
NuSpeed, Inc.	$ 6	40.0%
IPCell Technologies, Inc.	$10	30.0%
PixStream Incorporated	$ 2	35.0%
Active Voice Corporation	$ 5	40.0%
Radiata, Inc.	$ 3	30.0%
FISCAL 2000		
Monterey Networks, Inc.	$ 4	30.0%
The optical systems business of Pirelli S.p.A.	$ 5	20.0%
Aironet Wireless Communications, Inc.	$ 3	23.5%
Atlantech Technologies	$ 6	37.5%
JetCell, Inc.	$ 7	30.5%
PentaCom, Ltd.	$13	30.0%
Qeyton Systems	$ 6	35.0%

Regarding our purchase acquisitions completed in fiscal 2001 and 2000, actual results to date have been consistent, in all material respects, with our assumptions at the time of the acquisitions except for certain purchase acquisitions where goodwill and purchased intangible assets have been impaired as discussed in the section relating to restructuring costs and other special charges. The assumptions primarily consist of an expected completion date for the in-process projects, estimated costs to complete the projects, and revenue and expense projections assuming the products have entered the market. Failure to achieve the expected levels of revenue and net income from these products will negatively impact the return on investment expected at the time that the acquisitions were completed and may result in impairment charges.

Net gains realized on minority investments were $190 million in fiscal 2001, compared with $531 million in fiscal 2000. The decrease was primarily due to the market price volatility of our publicly traded equity investments.

Interest and other income, net, was $940 million in fiscal 2001, compared with $577 million in fiscal 2000. The increase was primarily due to interest income related to the general increase in cash and investments generated from our operations.

For fiscal 2001, the effective tax rate was (16.0%). The effective tax rate differs from the statutory rate primarily due to the impact of nondeductible in-process R&D, acquisition-related costs, research and experimentation tax credits, and the tax impact of foreign operations. Our future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower effective rates or by unfavorable changes in tax laws and regulations.

RESTRUCTURING COSTS AND OTHER SPECIAL CHARGES AND PROVISION FOR INVENTORY

On April 16, 2001, due to macroeconomic and capital spending issues affecting the networking industry, we announced a restructuring program to prioritize our initiatives around high-growth areas of our business, focus on profit contribution, reduce expenses, and improve efficiency. This restructuring program includes a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain business functions.

As a result of the restructuring program and decline in forecasted revenue, we recorded restructuring costs and other special charges of $1.17 billion classified as operating expenses and an additional excess inventory charge classified as cost of sales. The excess inventory charge recorded in the third quarter of fiscal 2001 was $2.25 billion. This excess inventory charge was subsequently reduced in the fourth quarter of fiscal 2001 by a $187 million benefit primarily related to lower settlement charges for purchase commitments. As a result of the restructuring program, we expect pretax savings in operating expenses will be slightly more than $1 billion on an annualized basis.

The following paragraphs provide detailed information relating to the restructuring costs and other special charges and provision for inventory which were recorded in fiscal 2001.

Worldwide Workforce Reduction

In the third quarter of fiscal 2001, we announced a restructuring program to reduce approximately 6,000 regular employees across all business functions, operating units, and geographic regions. The worldwide workforce reduction started in the third quarter of fiscal 2001 and as of July 28, 2001, approximately 4,700 regular employees have been terminated. We recorded a workforce reduction charge of $397 million primarily relating to severance and fringe benefits of which $336 million has been paid or used as of July 28, 2001. In addition, approximately 1,500 regular employees were reduced through normal attrition. The number of temporary and contract workers employed by us was also reduced.

Consolidation of Excess Facilities and Other Special Charges

We recorded a restructuring charge of $484 million relating to consolidation of excess facilities and other special charges. The consolidation of excess facilities included the closure of certain corporate facilities, sales offices, and operational centers related to business activities that have been exited or restructured. We recorded a restructuring charge of $263 million for excess facilities primarily relating to lease terminations and noncancelable lease costs. Property and equipment that was disposed of or removed from operations resulted in a charge of $141 million and primarily consisted of leasehold improvements; computer equipment and related software; production, engineering, and other equipment; and furniture and fixtures. We also recorded other restructuring costs and special charges of $80 million primarily relating to payments to suppliers and vendors to terminate agreements and professional fees incurred in connection with the restructuring activities.

Impairment of Goodwill and Purchased Intangible Assets

Due to the decline in current business conditions, we restructured certain of our businesses and realigned resources to focus on profit contribution, high-growth markets, and core opportunities. Based upon impairment analyses which indicated that the carrying amount of the goodwill and purchased intangible assets will not be fully recovered through estimated undiscounted future operating cash flows, a charge of $289 million was recorded related to the impairment of goodwill and purchased intangible assets, measured as the amount by which the carrying amount exceeded the present value of the estimated future cash flows for goodwill and purchased intangible assets, as follows (in millions):

Acquired Company	Amount Impaired
Monterey Networks, Inc.	$108
HyNEX, Ltd.	79
Clarity Wireless, Inc. (Broadband Customer Premises Equipment)	53
Other	49
Total	$289

The results of operations relating to these businesses were not material on either an individual or aggregate basis.

A summary of the restructuring costs and other special charges is outlined as follows (in millions):

	Total Charge	Noncash Charges	Cash Payments	Restructuring Liabilities at July 28, 2001
Workforce reduction	$ 397	$ (71)	$(265)	$ 61
Consolidation of excess facilities and other charges	484	(141)	(18)	325
Impairment of goodwill and purchased intangible assets	289	(289)	--	--
Total	$1,170	$(501)	$(283)	$386

Amounts related to the net lease expense due to the consolidation of facilities will be paid over the respective lease terms through fiscal 2007. We expect to substantially complete implementation of our restructuring program during the first quarter of fiscal 2002.

Provision for Inventory

We recorded a provision for inventory, including purchase commitments, totaling $2.77 billion in fiscal 2001, which included an additional excess inventory charge as previously discussed.

COMPARISON OF FISCAL 2000 AND 1999

Net product revenue in fiscal 2000 was $17.00 billion, compared with $11.09 billion in fiscal 1999, an increase of 53.3%. The increase in net product revenue was primarily a result of increased unit sales of router, switch, and access products; growth in the sales of add-on boards that provide increased functionality; and optical transport products.

Net service revenue in fiscal 2000 was $1.93 billion, compared with $1.08 billion in fiscal 1999, an increase of 78.2%. The increase in net service revenue was primarily related to an increase in product sales and installed base of equipment needing maintenance support.

Gross margin in fiscal 2000 was 64.4%, compared with 65.0% in fiscal 1999. The decrease in the gross margin was primarily due to a continued shift in revenue mix toward our lower-margin products and pricing pressure seen from competitors in certain product areas.

R&D, sales and marketing, and G&A expenses are summarized in the following table (in millions, except percentages):

	AMOUNTS		PERCENTAGE OF NET SALES	
Years Ended	July 29, 2000	July 31, 1999	July 29, 2000	July 31, 1999
Research and development	$2,704	$1,663	14.3%	13.7%
Sales and marketing	$3,946	$2,465	20.8%	20.2%
General and administrative	$ 633	$ 381	3.3%	3.1%

R&D expenses in fiscal 2000 increased by 62.6% from fiscal 1999. The increase reflected our ongoing R&D efforts in a wide variety of areas. A significant portion of the increase was due to the addition of new personnel, partly through acquisitions, as well as higher expenditures on prototypes and depreciation on additional lab equipment.

Sales and marketing expenses in fiscal 2000 increased by 60.1% from fiscal 1999. The increase was principally due to an increase in the size of our direct sales force and related commissions, additional marketing and advertising investments associated with the introduction of new products, the expansion of distribution channels, and general corporate branding. The increase also reflected our efforts to invest in certain key areas, such as expansion of our end-to-end networking strategy and service provider coverage.

G&A expenses in fiscal 2000 increased by 66.1% from fiscal 1999. The increase in G&A expenses was primarily related to the addition of new personnel and investments in infrastructure.

Amortization of goodwill and purchased intangible assets included in operating expenses was $291 million in fiscal 2000, compared with $61 million in fiscal 1999. Amortization of goodwill and purchased intangible assets increased as we acquired companies and technologies.

Net gains realized on minority investments were $531 million in fiscal 2000. There were no gains realized on minority investments in fiscal 1999.

Interest and other income, net, in fiscal 2000 was $577 million, compared with $330 million in fiscal 1999. The increase was primarily due to interest income related to the general increase in cash and investments generated from our operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations initiated after June 30, 2001. SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001 provided that the first interim period financial statements have not been previously issued. The adoption of SFAS 141 did not have a material effect on our operating results or financial condition. We are currently assessing the impact of SFAS 142 on our operating results and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and total investments were $18.52 billion at July 28, 2001, a decrease of $1.98 billion from July 29, 2000. The decrease was primarily a result of a decrease in our net unrealized gains on publicly held investments of $5.76 billion and cash used in investing activities, primarily relating to $2.27 billion in capital expenditures and $1.16 billion in purchases of minority investments, offset by cash provided by operating activities of $6.39 billion and financing activities of $1.25 billion.

Accounts receivable decreased 36.2% during fiscal 2001. Days sales outstanding in receivables decreased to 31 days at July 28, 2001, from 37 days at July 29, 2000. The decrease in accounts receivable and days sales outstanding was primarily due to shipment linearity and process improvements surrounding billings and collections.

Inventories increased 36.7% during fiscal 2001. Inventory turns were 4.1 for the fourth quarter of fiscal 2001 and 7.8 for the fourth quarter of fiscal 2000. Inventory turns, excluding the excess inventory benefit of $187 million, were 4.6 for the fourth quarter of fiscal 2001. The inventory levels and inventory turns reflected the decrease in demand of products due to certain unfavorable economic conditions, combined with purchases of certain components with long lead times. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times versus the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

At July 28, 2001, we had a line of credit totaling $500 million, which expires in July 2002. There have been no borrowings under this agreement (see Note 8 to the Consolidated Financial Statements).

We have entered into several agreements to lease sites in San Jose, California (where our headquarters are established) and surrounding areas; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina, where we have pledged $1.26 billion of our investments as collateral for certain obligations of the leases. We anticipate that we may occupy more leased property in the future that will require similar pledged securities; however, we do not expect the impact of this activity to be material to our liquidity position (see Note 9 to Consolidated Financial Statements). We also lease office space in other U.S. locations, as well as locations in the Americas, EMEA, Asia Pacific, and Japan.

In addition, during the past couple of years, we have entered into several agreements to purchase or construct real estate, subject to the satisfaction of certain conditions. As of July 28, 2001, the total amount of commitments, if certain conditions are met, was approximately $1 billion.

We lend certain fixed income securities to enhance investment income. During fiscal 2001, we entered into various agreements to loan up to $500 million of our fixed income securities on an overnight basis. Under these securities lending agreements, the value of the collateral is equal to 102% of the fair market value of the loaned securities. The collateral is generally cash, U.S. government-backed securities, or guaranteed securities. At July 28, 2001, there were no outstanding securities lending transactions.

In fiscal 2001, we entered into an agreement to fund $1.05 billion in the SOFTBANK Asia Infrastructure Fund, which is payable upon demand by the general partner. As of July 28, 2001, we have invested $100 million toward this investment fund.

We believe that our current cash and cash equivalents, short-term investments, line of credit, and cash generated from operations will satisfy our expected working capital needs (including restructuring liabilities), capital expenditures, investment requirements, and commitments (see Note 9 to Consolidated Financial Statements) through at least the next 12 months. Remaining cash expenditures relating to workforce reductions and termination of agreements will be substantially paid in the first quarter of fiscal 2002. Amounts related to the net lease expense due to the consolidation of facilities will be paid over the respective lease terms through fiscal 2007.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available for sale and, consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Part of this portfolio includes minority equity investments in several publicly traded companies, the values of which are subject to market price volatility. For example, as a result of market price volatility of our publicly traded equity investments, we experienced a $5.76 billion ($3.81 billion, net of tax) decrease in net unrealized gains during fiscal 2001 on these investments. We have also invested in numerous privately held companies, many of which can still be considered in the startup or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies. We also have certain real estate lease commitments with payments tied to short-term interest rates. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investment portfolio while increasing the costs associated with our lease commitments. Conversely, declines in interest rates could have a material impact on interest earnings for our investment portfolio. We do not currently hedge these interest rate exposures.

INVESTMENTS

The following table presents the hypothetical changes in fair values in the financial instruments held at July 28, 2001 that are sensitive to changes in interest rates (in millions):

Issuer	VALUATION OF SECURITIES GIVEN AN INTEREST RATE DECREASE OF X BASIS POINTS (150 BPS)	(100 BPS)	(50 BPS)	FAIR VALUE AS OF JULY 28, 2001	VALUATION OF SECURITIES GIVEN AN INTEREST RATE INCREASE OF X BASIS POINTS 50 BPS	100 BPS	150 BPS
U.S. government notes and bonds	$ 4,677	$ 4,624	$ 4,571	$ 4,517	$ 4,464	$ 4,411	$ 4,357
State, municipal, and county government notes and bonds	56	55	55	54	54	53	53
Corporate notes and bonds	7,760	7,688	7,616	7,544	7,472	7,399	7,327
Total	$12,493	$12,367	$12,242	$12,115	$11,990	$11,863	$11,737

These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points ("BPS"), 100 BPS, and 150 BPS. A 50 BPS move in the Federal Funds Rate has occurred in nine of the last 10 years; a 100 BPS move in the Federal Funds Rate has occurred in six of the last 10 years; and a 150 BPS move in the Federal Funds Rate has occurred in four of the last 10 years.

The following analysis presents the hypothetical changes in fair values of public equity investments that are sensitive to changes in the stock market (in millions):

	VALUATION OF SECURITIES GIVEN X% DECREASE IN EACH STOCK'S PRICE (75%)	(50%)	(25%)	FAIR VALUE AS OF JULY 28, 2001	VALUATION OF SECURITIES GIVEN X% INCREASE IN EACH STOCK'S PRICE 25%	50%	75%
Corporate equities	$ 382	$ 764	$1,147	$1,529	$1,911	$2,293	$2,676

These equity securities are held for purposes other than trading. The modeling technique used measures the hypothetical change in fair values arising from selected hypothetical changes in each stock's price. Stock price fluctuations of plus or minus 25%, 50%, and 75% were selected based on the probability of their occurrence. Our equity portfolio consists of securities with characteristics that most closely match the S&P Index or companies traded on the NASDAQ National Market. The NASDAQ Composite Index has shown a 25% and 50% movement in each of the last three years and a 75% movement in at least one of the last three years.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

LEASES

We are exposed to interest rate risk associated with leases on our facilities where payments are tied to the London Interbank Offered Rate ("LIBOR"). We have evaluated the hypothetical change in lease obligations held at July 28, 2001 due to changes in the LIBOR. The modeling technique used measures hypothetical changes in lease obligations arising from selected hypothetical changes in the LIBOR. The hypothetical market changes reflected immediate parallel shifts in the LIBOR curve of plus or minus 50 BPS, 100 BPS, and 150 BPS. The results of this analysis were not material in comparison to our financial results.

DERIVATIVE INSTRUMENTS

We enter into foreign exchange forward contracts to offset the impact of currency fluctuations on foreign currency assets and liabilities, primarily denominated in Australian, Canadian, Japanese, Korean, and several European currencies, including the euro and the British pound. We also periodically hedge anticipated transactions with purchased currency options. Foreign exchange forward and option contracts as of July 28, 2001 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Assets	$ 710	$ (1)
Liabilities	$1,582	$ 13
Option contracts:		
Assets	$ 613	$ 15

The foreign exchange forward contracts we enter into generally have original maturities ranging from one to three months for foreign currency receivables and payables. Foreign exchange forward contracts related to investments and purchased currency option contracts generally have maturities of less than one year. We do not enter into foreign exchange forward and option contracts for trading purposes.

We have entered into a forward sale agreement on a particular equity security in order to hedge its market value risk. The total market value of this transaction at inception was approximately $200 million.

We do not expect gains or losses on these derivative instruments to have a material impact on our financial results (see Note 9 to the Consolidated Financial Statements).

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

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
NET SALES:			
Product	$19,559	$17,002	$ 11,092
Service	2,734	1,926	1,081
Total net sales	22,293	18,928	12,173
Cost of sales:			
Product	10,198	5,970	3,770
Service	1,023	776	489
Total cost of sales	11,221	6,746	4,259
GROSS MARGIN	11,072	12,182	7,914
Operating expenses:			
Research and development	3,922	2,704	1,663
Sales and marketing	5,296	3,946	2,465
General and administrative	778	633	381
Restructuring costs and other special charges	1,170	--	--
Amortization of goodwill and purchased intangible assets	1,055	291	61
In-process research and development	855	1,373	471
Total operating expenses	13,076	8,947	5,041
OPERATING INCOME (LOSS)	(2,004)	3,235	2,873
Net gains realized on minority investments	190	531	--
Interest and other income, net	940	577	330
INCOME (LOSS) BEFORE PROVISION FOR TAXES	(874)	4,343	3,203
Provision for income taxes	140	1,675	1,180
NET INCOME (LOSS)	$(1,014)	$2,668	$ 2,023
Net income (loss) per share--basic	$ (0.14)	$ 0.39	$ 0.30
Net income (loss) per share--diluted	$ (0.14)	$ 0.36	$ 0.29
Shares used in per-share calculation--basic	7,196	6,917	6,646
Shares used in per-share calculation--diluted	7,196	7,438	7,062

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	July 28, 2001	July 29, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,873	$ 4,234
Short-term investments	2,034	1,291
Accounts receivable, net of allowance for doubtful accounts of $288 at July 28, 2001 and $43 at July 29, 2000	1,466	2,299
Inventories, net	1,684	1,232
Deferred tax assets	1,809	1,091
Lease receivables, net	405	588
Prepaid expenses and other current assets	564	375
Total current assets	12,835	11,110
Investments	10,346	13,688
Restricted investments	1,264	1,286
Property and equipment, net	2,591	1,426
Goodwill and purchased intangible assets, net	4,659	4,087
Lease receivables, net	253	527
Other assets	3,290	746
TOTAL ASSETS	$35,238	$32,870
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 644	$ 739
Income taxes payable	241	233
Accrued compensation	1,058	1,317
Deferred revenue	3,214	1,386
Other accrued liabilities	2,553	1,521
Restructuring liabilities	386	--
Total current liabilities	8,096	5,196
Commitments and contingencies (Note 9)		
Deferred tax liabilities	--	1,132
Minority interest	22	45
Shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	--	--
Common stock and additional paid-in capital, $0.001 par value: 20,000 shares authorized; 7,324 and 7,138 shares issued and outstanding at July 28, 2001 and July 29, 2000, respectively	20,051	14,609
Retained earnings	7,344	8,358
Accumulated other comprehensive income (loss)	(275)	3,530
Total shareholders' equity	27,120	26,497
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$35,238	$32,870

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Cash flows from operating activities:			
Net income (loss)	$ (1,014)	$ 2,668	$ 2,023
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,236	863	489
Provision for doubtful accounts	268	40	19
Provision for inventory	2,775	339	151
Deferred income taxes	(924)	(782)	(247)
Tax benefits from employee stock option plans	1,397	2,495	837
Adjustment to conform fiscal year ends of pooled acquisitions	--	(18)	1
In-process research and development	739	1,279	379
Net gains on minority investments and provision for losses	43	(92)	--
Restructuring costs and other special charges	501	--	--
Change in operating assets and liabilities:			
Accounts receivable	569	(1,043)	45
Inventories	(1,644)	(887)	(443)
Prepaid expenses and other current assets	(25)	(249)	(101)
Accounts payable	(105)	286	111
Income taxes payable	(434)	(365)	217
Accrued compensation	(256)	576	285
Deferred revenue	1,629	662	385
Other accrued liabilities	251	369	174
Restructuring liabilities	386	--	--
Net cash provided by operating activities	6,392	6,141	4,325
Cash flows from investing activities:			
Purchases of short-term investments	(4,594)	(2,473)	(1,250)
Proceeds from sales and maturities of short-term investments	4,370	2,481	1,660
Purchases of investments	(18,306)	(14,778)	(5,632)
Proceeds from sales and maturities of investments	15,579	13,240	1,994
Purchases of restricted investments	(941)	(458)	(1,101)
Proceeds from sales and maturities of restricted investments	1,082	206	560
Acquisition of property and equipment	(2,271)	(1,086)	(602)
Purchases of technology licenses	(4)	(444)	(95)
Acquisition of businesses, net of cash and cash equivalents	(13)	24	(19)
Net change in lease receivables	457	(535)	(310)
Purchases of minority investments	(1,161)	(130)	(119)
Lease deposit	(320)	--	--
Purchase of minority interest of Cisco Systems, K.K. (Japan)	(365)	--	--
Other	(516)	(424)	(71)
Net cash used in investing activities	(7,003)	(4,377)	(4,985)
Cash flows from financing activities:			
Issuance of common stock	1,262	1,564	947
Other	(12)	(7)	7
Net cash provided by financing activities	1,250	1,557	954
Net increase in cash and cash equivalents	639	3,321	294
Cash and cash equivalents, beginning of fiscal year	4,234	913	619
Cash and cash equivalents, end of fiscal year	$ 4,873	$ 4,234	$ 913

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions)

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE AT JULY 25, 1998	6,491	$ 3,339	$ 3,800	$ 58	$ 7,197
Net income	--	--	2,023	--	2,023
Change in net unrealized gains on investments	--	--	--	234	234
Other	--	--	--	6	6
Comprehensive income	--	--	--	--	2,263
Issuance of common stock	300	947	--	--	947
Tax benefits from employee stock option plans	--	837	--	--	837
Pooling of interests acquisitions	4	38	(42)	--	(4)
Purchase acquisitions	26	570	--	--	570
Adjustment to conform fiscal year ends of pooled acquisitions	--	--	1	--	1
BALANCE AT JULY 31, 1999	6,821	5,731	5,782	298	11,811
Net income	--	--	2,668	--	2,668
Change in net unrealized gains on investments	--	--	--	3,240	3,240
Other	--	--	--	(8)	(8)
Comprehensive income	--	--	--	--	5,900
Issuance of common stock	219	1,564	--	--	1,564
Tax benefits from employee stock option plans	--	3,077	--	--	3,077
Pooling of interests acquisitions	20	75	(74)	--	1
Purchase acquisitions	78	4,162	--	--	4,162
Adjustment to conform fiscal year ends of pooled acquisitions	--	--	(18)	--	(18)
BALANCE AT JULY 29, 2000	7,138	14,609	8,358	3,530	26,497
Net loss	--	--	(1,014)	--	(1,014)
Change in net unrealized gains on investments	--	--	--	(3,812)	(3,812)
Other	--	--	--	7	7
Comprehensive loss	--	--	--	--	(4,819)
Issuance of common stock	140	1,262	--	--	1,262
Tax benefits from employee stock option plans	--	1,755	--	--	1,755
Purchase acquisitions	46	2,163	--	--	2,163
Amortization of deferred stock-based compensation	--	262	--	--	262
BALANCE AT JULY 28, 2001	7,324	$ 20,051	$ 7,344	$ (275)	$ 27,120

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Cisco Systems, Inc. (the "Company" or "Cisco") is the worldwide leader in networking for the Internet. Cisco Internet Protocol ("IP")-based networking solutions are the foundation of the Internet and are installed at corporations, public institutions, telecommunication companies, and are found in a growing number of medium-sized commercial enterprises. Cisco provides a broad line of solutions for transporting data, voice, and video within buildings, across campuses, or around the world. Cisco solutions allow networks, both public and private, to operate with flexibility, security, and performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2001, 2000, and 1999 were 52-week, 52-week, and 53-week fiscal years, respectively.

PRINCIPLES OF CONSOLIDATION The Consolidated Financial Statements include the accounts of Cisco Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Substantially all cash and cash equivalents are custodied with two major financial institutions.

INVESTMENTS The Company's investments comprise U.S., state, and municipal government obligations; corporate debt securities; and publicly traded corporate equity securities. Investments with maturities of less than one year are considered to be short-term. All investments are primarily held in the Company's name and custodied with a major financial institution. The specific identification method is used to determine the cost basis of notes and bonds disposed. The weighted-average method is used to determine the cost basis of corporate equity securities disposed. At July 28, 2001 and July 29, 2000, substantially all of the Company's investments were classified as available for sale. Unrealized gains and losses on these investments are included as a separate component of accumulated other comprehensive income (loss), net of any related tax effect.

The Company also has other minority equity investments in nonpublicly traded companies. These investments are included in other assets on the Company's balance sheet and are generally carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

INVENTORIES Inventories are stated at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company provides inventory allowances based on excess and obsolete inventories.

RESTRICTED INVESTMENTS Restricted investments consist of U.S. government obligations with maturities of more than one year. These investments are carried at fair value and are restricted as to withdrawal. Restricted investments are held in the Company's name and custodied with two major financial institutions.

FAIR VALUE OF FINANCIAL INSTRUMENTS Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accrued compensation, and other accrued liabilities, approximate fair value because of their short maturities. The fair values of investments are determined using quoted market prices for those securities or similar financial instruments.

CONCENTRATIONS Cash and cash equivalents are primarily maintained with two major financial institutions in the United States. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand.

The Company performs ongoing credit evaluations of its customers and, with the exception of certain financing transactions, does not require collateral from its customers. The Company's customers are primarily in the service provider and enterprise markets.

The Company receives certain of its components from sole suppliers. Additionally, the Company relies on a limited number of partner suppliers to manufacture its products. The inability of any supplier or manufacturer to fulfill supply requirements of the Company could materially impact future operating results.

REVENUE RECOGNITION The Company generally recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, fee is fixed or determinable, and collectibility is probable. Service revenue is generally deferred and, in most cases, recognized ratably over the service period obligations, which are typically one to three years. The Company makes certain sales to partners in two-tier distribution channels. These partners are generally given privileges to return a portion of inventory and participate in various cooperative marketing programs. The Company recognizes revenue to two-tier distributors based on estimates that approximate the point products have been sold by the distributors and also maintains accruals and allowances for all cooperative marketing and other programs. The Company accrues for warranty costs, sales returns, and other allowances based on its experience. Cash payments received in advance of product or service revenue are recorded as deferred revenue.

The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") in the fourth quarter of fiscal 2001. The adoption of SAB 101 did not have a material impact on the Company's operating results or financial position.

LEASE RECEIVABLES The Company provides a variety of lease financing services to its customers to build, maintain, and upgrade their networks. Lease receivables primarily represent the principal balance remaining in sales-type and direct-financing leases under these programs, net of reserves. These leases typically have two- to three-year terms and are collateralized by a security interest in the underlying assets.

ADVERTISING COSTS The Company expenses all advertising costs as incurred.

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

DEPRECIATION AND AMORTIZATION Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of 25 years are used for buildings. Estimated useful lives of 24 to 30 months are used for computer equipment and related software and 5 years for furniture and fixtures. Estimated useful lives of up to five years are used for production, engineering, and other equipment. Depreciation of operating lease assets is computed based on the respective lease terms which range up to three years. Depreciation and amortization of leasehold improvements is computed using the shorter of the remaining lease terms or five years.

GOODWILL AND PURCHASED INTANGIBLE ASSETS Goodwill and purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally three to five years. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. The Company is currently assessing the impact of SFAS 142 on its operating results and financial condition.

INCOME TAXES Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

COMPUTATION OF NET INCOME (LOSS) PER SHARE Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive potential common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and excludes dilutive potential common shares outstanding, as their effect is antidilutive. Dilutive potential common shares primarily consist of employee stock options.

FOREIGN CURRENCY TRANSLATION Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date with the resulting translation adjustments recorded directly to a separate component of accumulated other comprehensive income (loss). Income and expense accounts are translated at average exchange rates during the year. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income.

DERIVATIVES In the first quarter of fiscal 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

The Company designates its derivatives based upon criteria established by SFAS 133. For a derivative designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

The Company uses derivatives to manage exposures to foreign currency and securities price risk. The Company's objectives for holding derivatives are to decrease the volatility of earnings and cash flows associated with changes in foreign currency and security prices.

Certain forecasted transactions and foreign currency assets and liabilities expose the Company to foreign currency risk. The Company purchases currency options as cash flow hedges of foreign currency forecasted transactions related to certain operating expenses. The Company enters into foreign exchange forward contracts to minimize the short-term impact of currency fluctuations on foreign currency receivables, investments, and payables. The foreign exchange forward contracts are not designated as accounting hedges under SFAS 133.

The Company's equity investments are subject to market price risk. The Company has entered into a forward sale agreement of an equity security as a fair value hedge of the changes in the equity security's fair value. In addition, as a strategic investment, the Company has acquired warrants to purchase securities of other companies. Warrants that can be net share settled are deemed derivatives under SFAS 133 and are carried at fair value, with changes in fair value currently recognized as part of interest and other income, net, in the Company's Consolidated Statements of Operations.

The fair values of derivative instruments as of July 28, 2001 and changes in fair values during fiscal 2001 were not material. The adoption of SFAS 133 did not have a material impact on the Company's operating results. During fiscal 2001, there were no significant gains or losses recognized in earnings for hedge ineffectiveness. The Company did not discontinue any hedges because it was probable that the original forecasted transaction would not occur.

MINORITY INTEREST Minority interest represents the preferred stockholders' proportionate share of the equity of Cisco Systems, K.K. (Japan). At July 28, 2001, the Company owned all issued and outstanding common stock amounting to 87.8% of the voting rights. Each share of preferred stock is convertible into one share of common stock at any time at the option of the holder.

USE OF ESTIMATES The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory allowances, restructuring costs and other special charges, depreciation and amortization, sales returns, warranty costs, taxes, and contingencies. Actual results could differ from these estimates.

IMPAIRMENT OF LONG-LIVED ASSETS Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

RECENT ACCOUNTING PRONOUNCEMENTS In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting and is effective for all business combinations initiated after June 30, 2001. SFAS 142 requires goodwill to be tested for impairment under certain circumstances, and written off when impaired, rather than being amortized as previous standards required. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001 provided that the first interim period financial statements have not been previously issued. The adoption of SFAS 141 did not have a material effect on the Company's operating results or financial condition. The Company is currently assessing the impact of SFAS 142 on its operating results and financial condition.

RECLASSIFICATIONS Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

3. BUSINESS COMBINATIONS

Purchase Combinations

During the three years ended July 28, 2001, the Company completed a number of purchase acquisitions. The Consolidated Financial Statements include the operating results of each business from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not material on either an individual or aggregate basis.

The amounts allocated to in-process research and development ("in-process R&D") were determined through established valuation techniques in the high-technology communications equipment industry and were expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. Amounts allocated to goodwill and purchased intangible assets are amortized on a straight-line basis over periods not exceeding five years. A summary of purchase transactions is outlined as follows (in millions):

Acquired Company	Consideration Including Assumed Liabilities	In-Process R&D Expense	Goodwill and Purchased Intangible Assets
FISCAL 2001			
IPmobile, Inc.	$ 422	$ 181	$ 157
NuSpeed, Inc.	463	164	214
IPCell Technologies, Inc.	213	75	102
PixStream Incorporated	395	67	315
Active Voice Corporation	266	37	250
Radiata, Inc.	211	29	170
Other	903	302	387
Total	$2,873	$ 855	$1,595
FISCAL 2000			
Monterey Networks, Inc.	$ 517	$ 354	$ 154
The optical systems business of Pirelli S.p.A.	2,018	245	1,717
Aironet Wireless Communications, Inc.	835	243	589
Atlantech Technologies	179	63	140
JetCell, Inc.	203	88	137
PentaCom, Ltd.	102	49	40
Qeyton Systems	887	260	567
Other	228	71	155
Total	$4,969	$1,373	$3,499
FISCAL 1999			
Summa Four, Inc.	$ 129	$ 64	$ 29
Clarity Wireless, Inc.	153	94	73
Selsius Systems, Inc.	134	92	41
PipeLinks, Inc.	118	99	11
Amteva Technologies, Inc.	159	81	85
Other	58	41	18
Total	$ 751	$ 471	$ 257

The remaining purchase price of $423 million, $97 million, and $23 million in fiscal 2001, 2000, and 1999, respectively, was primarily allocated to tangible assets and deferred stock-based compensation. The unamortized deferred stock-based compensation was $293 million and $149 million at July 28, 2001 and July 29, 2000, respectively, and was reflected as a debit to additional paid-in capital in the Consolidated Statements of Shareholders' Equity.

Other Purchase Combinations Completed as of July 28, 2001

In fiscal 2001, the Company acquired Netiverse, Inc.; HyNEX, Ltd.; Komodo Technology, Inc.; Vovida Networks, Inc.; ExiO Communications, Inc.; and the broadband subscriber management business of CAIS Software Solutions, Inc. for a total purchase price of $903 million, paid in common stock and cash. Total in-process R&D related to these acquisitions amounted to $302 million.

Total in-process R&D expense in fiscal 2001, 2000, and 1999 was $855 million, $1.37 billion, and $471 million, respectively. The in-process R&D expense that was attributable to stock consideration for the same periods was $739 million, $1.28 billion, and $379 million, respectively.

Minority Interest

In fiscal 2001, the Company purchased a portion of the minority interest of Cisco Systems, K.K. (Japan) for $365 million. As a result, the Company increased its ownership to 87.8% of the voting rights of Cisco Systems, K.K. (Japan) and recorded goodwill of $339 million.

Pooling of Interests Combinations

There were no transactions accounted for as a pooling of interests in fiscal 2001. In fiscal 2000, the Company acquired StratumOne Communications, Inc.; TransMedia Communications, Inc.; Cerent Corporation; WebLine Communications Corporation; SightPath, Inc.; InfoGear Technology Corporation; and ArrowPoint Communications, Inc. These transactions were accounted for as poolings of interests and the historical financial information for all periods presented prior to fiscal 2000 was restated. In addition, the historical financial information for all periods presented prior to fiscal 2000 was restated to reflect the acquisition of Fibex Systems, which was completed in the fourth quarter of fiscal 1999 and accounted for as a pooling of interests. As a result of these transactions, 354 million shares of common stock were exchanged and options were assumed for a fair value of $15.18 billion.

In fiscal 1999, the Company acquired GeoTel Communications Corporation and 68 million shares of common stock were exchanged and options were assumed for a fair value of approximately $2 billion. The transaction was accounted for as a pooling of interests and the historical financial information for all periods presented prior to fiscal 1999 was restated.

In fiscal 2000, the Company also acquired Cocom A/S; V-Bits, Inc.; Growth Networks, Inc.; Altiga Networks, Inc.; and Compatible Systems Corporation and 20 million shares of common stock were exchanged and options were assumed for a fair value of $1.12 billion. In fiscal 1999, the Company acquired Sentient Networks, Inc., and 4 million shares of common stock were exchanged and options were assumed for a fair value of $131 million. These transactions were accounted for as poolings of interests. The historical operations of these entities were not material to the Company's consolidated operations on either an individual or aggregate basis; therefore, prior period financial statements have not been restated for these acquisitions.

4. RESTRUCTURING COSTS AND OTHER SPECIAL CHARGES AND PROVISION FOR INVENTORY

On April 16, 2001, due to macroeconomic and capital spending issues affecting the networking industry, the Company announced a restructuring program to prioritize its initiatives around high-growth areas of its business, focus on profit contribution, reduce expenses, and improve efficiency. This restructuring program includes a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain business functions.

As a result of the restructuring program and decline in forecasted revenue, the Company recorded restructuring costs and other special charges of $1.17 billion classified as operating expenses and an additional excess inventory charge classified as cost of sales. The excess inventory charge recorded in the third quarter of fiscal 2001 was $2.25 billion. This excess inventory charge was subsequently reduced in the fourth quarter of fiscal 2001 by a $187 million benefit primarily related to lower settlement charges for purchase commitments.

The following paragraphs provide detailed information relating to the restructuring costs and other special charges and provision for inventory which were recorded in fiscal 2001.

Worldwide Workforce Reduction

In the third quarter of fiscal 2001, the Company announced a restructuring program to reduce approximately 6,000 regular employees across all business functions, operating units, and geographic regions. The worldwide workforce reduction started in the third quarter of fiscal 2001 and as of July 28, 2001, approximately 4,700 regular employees have been terminated. The Company recorded a workforce reduction charge of $397 million primarily relating to severance and fringe benefits of which $336 million has been paid or used as of July 28, 2001. In addition, approximately 1,500 regular employees were reduced through normal attrition. The number of temporary and contract workers employed by the Company was also reduced.

Consolidation of Excess Facilities and Other Special Charges

The Company recorded a restructuring charge of $484 million relating to consolidation of excess facilities and other special charges. The consolidation of excess facilities included the closure of certain corporate facilities, sales offices, and operational centers related to business activities that have been exited or restructured. The Company recorded a restructuring charge of $263 million for excess facilities primarily relating to lease terminations and noncancelable lease costs. Property and equipment that was disposed of or removed from operations resulted in a charge of $141 million and primarily consisted of leasehold improvements; computer equipment and related software; production, engineering, and other equipment; and furniture and fixtures. The Company also recorded other restructuring costs and special charges of $80 million primarily relating to payments to suppliers and vendors to terminate agreements and professional fees incurred in connection with the restructuring activities.

Impairment of Goodwill and Purchased Intangible Assets

Due to the decline in current business conditions, the Company restructured certain of its businesses and realigned resources to focus on profit contribution, high-growth markets, and core opportunities. As a result, the Company recorded a charge of $289 million related to the impairment of goodwill and purchased intangible assets, measured as the amount by which the carrying amount exceeded the present value of the estimated future cash flows for goodwill and purchased intangible assets, as follows (in millions):

Acquired Company	Amount Impaired
Monterey Networks, Inc.	$ 108
HyNEX, Ltd.	79
Clarity Wireless, Inc. (Broadband Customer Premises Equipment)	53
Other	49
Total	$ 289

The results of operations relating to these businesses were not material on either an individual or aggregate basis.

A summary of the restructuring costs and other special charges is outlined as follows (in millions):

	Total Charge	Noncash Charges	Cash Payments	Restructuring Liabilities at July 28, 2001
Workforce reduction	$ 397	$ (71)	$(265)	$ 61
Consolidation of excess facilities and other charges	484	(141)	(18)	325
Impairment of goodwill and purchased intangible assets	289	(289)	--	--
Total	$1,170	$(501)	$(283)	$386

Amounts related to the net lease expense due to the consolidation of facilities will be paid over the respective lease terms through fiscal 2007. The Company expects to substantially complete implementation of its restructuring program during the first quarter of fiscal 2002.

Provision for Inventory

The Company recorded a provision for inventory, including purchase commitments, totaling $2.77 billion during fiscal 2001, which included an additional excess inventory charge as previously discussed. This additional excess inventory charge was due to a sudden and significant decrease in demand for the Company's products and was calculated in accordance with the Company's accounting policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. BALANCE SHEET AND CASH FLOW DETAILS

The following tables provide details of selected balance sheet items (in millions):

	July 28, 2001	July 29, 2000
Inventories, net:		
Raw materials	$ 662	$ 145
Work in process	260	472
Finished goods	669	496
Demonstration systems	93	119
Total	$1,684	$ 1,232
Property and equipment, net:		
Land, buildings, and leasehold improvements	$1,300	$ 607
Computer equipment and related software	984	908
Production, engineering, and other equipment	1,828	1,126
Operating lease assets	551	100
Furniture and fixtures	366	264
	5,029	3,005
Less, accumulated depreciation and amortization	(2,438)	(1,579)
Total	$2,591	$ 1,426
Goodwill and purchased intangible assets, net:		
Goodwill	$3,999	$ 2,937
Purchased intangible assets	2,016	1,558
	6,015	4,495
Less, accumulated amortization	(1,356)	(408)
Total	$4,659	$ 4,087
Other assets:		
Deferred tax assets	$1,314	$ --
Minority investments, net	775	181
Income tax receivable	443	--
Lease deposit	320	--
Structured loans, net	84	205
Other	354	360
Total	$3,290	$ 746

The following table presents the details of the amortization of goodwill and purchased intangible assets (excluding the impairment of goodwill and purchased intangible assets charge of $289 million included in restructuring costs and other special charges) as reported in the Consolidated Statements of Operations (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Reported as:			
Cost of sales:			
Amortization of purchased intangible assets	$ 22	$ 25	$ 1
Operating expenses:			
Amortization of goodwill	690	154	18
Amortization of purchased intangible assets	365	137	43
	1,055	291	61
Total	$1,077	$316	$62

The following table presents supplemental cash flow information of significant noncash investing and financing activities (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Utilization of inventory financing to purchase inventory	$765	$ --	$ --

6. LEASE RECEIVABLES

Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company's and complementary third-party products and services. These lease arrangements typically have terms from two to three years and are usually collateralized by a security interest in the underlying assets. The net lease receivables are summarized as follows (in millions):

	July 28, 2001	July 29, 2000
Gross lease receivables	$1,554	$1,310
Unearned income and other reserves	(896)	(195)
Total	658	1,115
Less, current portion	(405)	(588)
Long-term lease receivables, net	$ 253	$ 527

Contractual maturities of the gross lease receivables at July 28, 2001 were $605 million in fiscal 2002, $510 million in fiscal 2003, $402 million in fiscal 2004, $36 million in fiscal 2005, and $1 million in fiscal 2006. Actual cash collections may differ from the contractual maturities due to early customer buyouts or refinancings.

7. INVESTMENTS

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

JULY 28, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	$4,426	$ 92	$ (1)	$ 4,517
State, municipal, and county government notes and bonds	54	--	--	54
Corporate notes and bonds	7,430	118	(4)	7,544
Corporate equity securities	1,993	320	(784)	1,529
Total	$13,903	$530	$(789)	$13,644
Reported as:				
Short-term investments				$ 2,034
Investments				10,346
Restricted investments				1,264
Total				$13,644

JULY 29, 2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	$ 2,317	$ --	$ (32)	$ 2,285
State, municipal, and county government notes and bonds	3,592	13	(41)	3,564
Corporate notes and bonds	3,222	1	(19)	3,204
Corporate equity securities	641	5,621	(37)	6,225
Mandatorily redeemable convertible preferred stock	987	--	--	987
Total	$10,759	$5,635	$(129)	$16,265
Reported as:				
Short-term investments				$ 1,291
Investments				13,688
Restricted investments				1,286
Total				$16,265

Net gains realized on minority investments were $190 million and $531 million in fiscal 2001 and 2000, respectively. There were no gains realized on minority investments in fiscal 1999.

The following table summarizes maturities of debt investments (including restricted investments) at July 28, 2001 (in millions):

	Amortized Cost	Fair Value
Less than one year	$ 2,798	$ 2,801
Due in 1-2 years	1,583	1,610
Due in 2-5 years	3,921	4,028
Due after 5 years	3,608	3,676
Total	$11,910	$12,115

The Company has entered into a forward sale agreement on a particular equity security in order to hedge its market value risk. The total market value of this transaction at inception was approximately $200 million. For fiscal 2001, the gain on the forward sale agreement was $55 million and was offset by the loss on the underlying asset. Any hedge ineffectiveness is included with interest and other income, net, in the Company's Consolidated Statement of Operations. For fiscal 2001, the ineffective portion of this hedge was not material.

In January 2000, the Company purchased 5 million shares of Series A Mandatorily Redeemable Convertible Preferred Stock ("Preferred Stock") in KPMG Consulting, Inc. totaling $1.05 billion. In February 2001, 1.4 million shares of Preferred Stock were repurchased by KPMG LLP for $378 million and 2.5 million shares of Preferred Stock were repurchased by KPMG Consulting, Inc. for $525 million. The remaining portion of the Preferred Stock was converted to 9.9% of the outstanding common stock of KPMG Consulting, Inc. upon the completion of its initial public offering.

During fiscal 2001, the Company entered into various agreements to loan up to $500 million of its fixed income securities on an overnight basis. Under these securities lending agreements, the value of the collateral is equal to 102% of the fair market value of the loaned securities. The collateral is generally cash, U.S. government-backed securities, or guaranteed securities. At July 28, 2001, there were no outstanding securities lending transactions.

8. LINE OF CREDIT

At July 28, 2001, the Company had a syndicated credit agreement under the terms of which a group of banks committed a maximum of $500 million on an unsecured, revolving basis for borrowings of various maturities. The commitments made under this agreement expire on July 1, 2002. Under the terms of the agreement, borrowings bear interest at a spread over the LIBOR based on certain financial criteria and third-party rating assessments. As of July 28, 2001, this spread was 12.0 basis points. In addition to this spread, a commitment fee of 5.5 basis points was assessed against any undrawn amounts. The agreement includes a single financial covenant that places a variable floor on tangible net worth, as defined, if certain leverage ratios are exceeded. There have been no borrowings under this agreement to date.

9. COMMITMENTS AND CONTINGENCIES

LEASES

The Company has entered into several agreements to lease sites, both completed and under construction, with buildings totaling 9.5 million square feet of space in San Jose, California, and surrounding areas; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina. These lease agreements also cover 297 acres of land at these sites available for future expansion.

All of the leases have initial terms of five to seven years and options to renew for an additional three to five years, subject to certain conditions. At any time during the terms of these leases, the Company may, at its option, purchase the land or both land and buildings. The Company may purchase the buildings at approximately the amount expended by the lessors to construct the buildings. If the Company elects not to purchase the land or both land and buildings at the end of each of the leases, the Company has guaranteed a residual value of $1.53 billion at July 28, 2001. The lessors of the properties have committed to fund up to a maximum of $2.32 billion, subject to reductions based on certain conditions in the respective leases, with the portion of the committed amount actually used to be determined by the Company. As of July 28, 2001, the remaining funding commitment available from the lessors was approximately $600 million. Rent obligations for the buildings commenced on various dates and will expire at the same time as the land leases.

As part of the above lease transactions, the Company restricted $1.26 billion of its investment securities as collateral for specified obligations of the lessors under the leases. These investment securities are restricted as to withdrawal and are managed by third parties subject to certain limitations under the Company's investment policy. In addition, the Company must maintain a minimum consolidated tangible net worth, as defined.

The Company also leases office space in other U.S. locations, as well as locations in the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. Future annual minimum lease payments under all noncancelable operating leases having initial or remaining lease terms in excess of one year as of July 28, 2001 are as follows (in millions):

Fiscal Year	Amount
2002	$ 378
2003	376
2004	346
2005	299
2006	246
Thereafter	1,443
Total	$3,088

Rent expense totaled $381 million, $229 million, and $123 million for fiscal 2001, 2000, and 1999, respectively.

DERIVATIVE INSTRUMENTS

The Company conducts business on a global basis in several currencies. As such, it is exposed to adverse movements in foreign currency exchange rates. The Company enters into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on foreign currency receivables, investments, and payables. The gains and losses on the foreign exchange forward contracts offset the transaction gains and losses on the foreign currency receivables, investments, and payables recognized in earnings.

The Company does not enter into foreign exchange forward contracts for trading purposes. Gains and losses on the contracts are included in interest and other income, net, in the Company's Consolidated Statements of Operations and offset foreign exchange gains or losses from the revaluation of intercompany balances or other current assets, investments, and liabilities denominated in currencies other than the functional currency of the reporting entity. The Company's foreign exchange forward contracts related to current assets and liabilities generally range from one to three months in original maturity. The foreign exchange contracts related to investments generally have maturities of less than one year.

The Company periodically hedges foreign currency forecasted transactions related to certain operating expenses with purchased currency options. These transactions are treated as cash flow hedges in accordance with SFAS 133. These purchased currency options generally have maturities of less than one year. The Company does not purchase currency options for trading purposes.

Foreign exchange forward and option contracts as of July 28, 2001 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Assets	$ 710	$ (1)
Liabilities	$1,582	$ 13
Option contracts:		
Assets	$ 613	$ 15

The Company has entered into a forward sale agreement of an equity security as a fair value hedge of the changes in the equity security's fair value. The investment was classified as available for sale.

The Company's foreign exchange forward and option contracts and forward sale agreement expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company minimizes such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties.

LEGAL PROCEEDINGS

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Beginning on April 20, 2001, a number of purported shareholder class action lawsuits have been filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The lawsuits are essentially identical, and purport to bring suit on behalf of those who purchased the Company's publicly traded securities between August 10, 1999 and April 16, 2001. Plaintiffs allege that defendants made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. The Company believes the claims are without merit and intends to defend the actions vigorously.

In addition, beginning on April 23, 2001, a number of purported shareholder derivative lawsuits have been filed in the Superior Court of California, County of Santa Clara, against the Company (as a nominal defendant), its directors, and certain officers. At least two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and another has been filed in the Superior Court of California, County of San Mateo. The complaints in the various derivative actions include claims for breach of fiduciary duty, waste of corporate assets, mismanagement, unjust enrichment, and violations of the California Corporations Code, seek compensatory and other damages, disgorgement, and other relief, and are based on essentially the same allegations as the class actions.

PURCHASE COMMITMENTS

The Company uses several supply partners to manufacture its products. During the normal course of business, in order to reduce manufacturing lead times and ensure adequate component supply, the Company enters into agreements with certain supply partners that allow these partners to procure inventory based upon criteria as defined by the Company. As of July 28, 2001, the Company may be committed to purchase approximately $850 million of inventory.

OTHER COMMITMENTS

In fiscal 2001, the Company entered into an agreement to fund $1.05 billion in the SOFTBANK Asia Infrastructure Fund, which is payable upon demand by the general partner. As of July 28, 2001, the Company has invested $100 million toward these investment funds.

The Company provides financing to certain qualified customers to be used for the purchase of equipment and other needs through its wholly-owned subsidiary, Cisco Systems Capital Corporation. At July 28, 2001, the outstanding loan commitments were approximately $1.9 billion. These loan commitments may be funded over a two- to three-year period provided these customers achieve specific business milestones and financial covenants.

During the past couple of years, the Company has entered into several agreements to purchase or construct real estate, subject to the satisfaction of certain conditions. As of July 28, 2001, the total amount of commitments, if certain conditions are met, was approximately $1 billion.

10. SHAREHOLDERS' EQUITY

SHAREHOLDERS' RIGHTS PLAN

In June 1998, the Board of Directors approved a Shareholders' Rights Plan ("Rights Plan"). The Rights Plan is intended to protect shareholders' rights in the event of an unsolicited takeover attempt. It is not intended to prevent a takeover of the Company on terms that are favorable and fair to all shareholders and will not interfere with a merger approved by the Board of Directors. Each right entitles shareholders to buy a unit equal to a portion of a new share of Series A Preferred Stock of the Company. The rights will be exercisable only if a person or a group acquires or announces a tender or exchange offer to acquire 15% or more of the Company's common stock.

In the event the rights become exercisable, the Rights Plan allows for Cisco shareholders to acquire, at an exercise price of $108 per right owned, stock of the surviving corporation having a market value of $217, whether or not Cisco is the surviving corporation. The rights, which expire in June 2008, are redeemable for $0.00017 per right at the approval of the Board of Directors.

PREFERRED STOCK

Under the terms of the Company's Articles of Incorporation, the Board of Directors may determine the rights, preferences, and terms of the Company's authorized but unissued shares of preferred stock.

COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of tax, are as follows (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Net income (loss)	$(1,014)	$ 2,668	$ 2,023
Other comprehensive income (loss):			
Change in net unrealized gains on investments, net of tax of ($1,953), $1,762, and $144 in fiscal 2001, 2000, and 1999, respectively	(3,812)	3,240	234
Other	7	(8)	6
Total	$(4,819)	$ 5,900	$ 2,263

11. EMPLOYEE BENEFIT PLANS

EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan (the "Purchase Plan") under which 222 million shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at a discount of up to 15% of the market value at certain plan-defined dates. The Purchase Plan terminates on January 3, 2005. In fiscal 2001, 2000, and 1999, 13 million, 7 million, and 10 million shares, respectively, were issued under the Purchase Plan. At July 28, 2001, 110 million shares were available for issuance under the Purchase Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EMPLOYEE STOCK OPTION PLANS

The Company has two main stock option plans: the 1987 Stock Option Plan (the "Predecessor Plan") and the 1996 Stock Incentive Plan (the "1996 Plan").

The Predecessor Plan was terminated in 1996. All outstanding options under the Predecessor Plan were transferred to the 1996 Plan. However, all outstanding options under the Predecessor Plan continue to be governed by the terms and conditions of the existing option agreements for those grants.

The maximum number of shares issuable over the term of the 1996 Plan is limited to 1.98 billion shares. Such share reserve consists of the 620 million shares originally transferred from the Predecessor Plan plus the number of shares added to the reserve pursuant to the automatic share increases effected annually beginning in December 1996 and expires in December 2002. The share reserve will automatically increase on the first trading day of each December by an amount equal to 4.75% of the outstanding shares on the last trading day of the immediately preceding November.

Although the Board of Directors has the authority to set other terms, the options will become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Recent grants have utilized a 60-month ratable vesting schedule. Options granted under the 1996 Plan have an exercise price equal to the fair market value of the option shares on the grant date and expire no later than nine years from the grant date.

In 1997, the Company adopted a Supplemental Stock Incentive Plan (the "Supplemental Plan") under which options can be granted or shares can be directly issued to eligible employees. Officers and members of the Company's Board of Directors are not eligible to participate in the Supplemental Plan. Nine million shares have been reserved for issuance under the Supplemental Plan, of which two million shares are subject to outstanding options, and two million shares have been issued in fiscal 2001. All option grants have an exercise price equal to the fair market value of the option shares on the grant date.

The Company has, in connection with the acquisitions of various companies, assumed the stock option plans of each acquired company. During fiscal 2001, a total of approximately eight million shares of the Company's common stock have been reserved for issuance under the assumed plans and the related options are included in the following table.

A summary of option activity follows (in millions, except per-share amounts):

		Options Outstanding	
	Options Available for Grant	Options	Weighted-Average Exercise Price per Share
BALANCE AT JULY 25, 1998	176	876	$ 6.25
Granted and assumed	(245)	245	22.22
Exercised	--	(210)	3.09
Canceled	22	(22)	10.85
Additional shares reserved	359	--	--
BALANCE AT JULY 31, 1999	312	889	11.22
Granted and assumed	(295)	295	52.10
Exercised	--	(176)	5.75
Canceled	37	(37)	22.70
Additional shares reserved	339	--	--
BALANCE AT JULY 29, 2000	393	971	24.19
Granted and assumed	(320)	320	39.93
Exercised	--	(133)	7.43
Canceled	98	(98)	41.82
Additional shares reserved	351	--	--

BALANCE AT JULY 28, 2001	522	1,060	$29.41

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information concerning outstanding and exercisable options at July 28, 2001 (in millions, except number of years and per-share amounts):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Number Exercisable	Weighted-Average Exercise Price per Share
$ 0.01 - 8.39	226	4.45	$ 4.97	214	$ 5.07
8.40 - 18.57	255	6.64	13.98	140	12.05
18.58 - 50.38	338	7.52	37.45	86	28.32
50.39 - 67.75	214	7.54	55.85	59	55.47
67.76 - 74.94	27	7.77	69.35	6	69.70
Total	1,060	6.66	$ 29.41	505	$ 17.62

At July 29, 2000 and July 31, 1999, 418 million and 370 million outstanding options, respectively, were exercisable. The weighted-average exercise prices for outstanding options were $9.22 and $5.75 at July 29, 2000 and July 31, 1999, respectively.

The Company is required under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to disclose pro forma information regarding option grants made to its employees based on specified valuation techniques that produce estimated compensation charges. These amounts have not been reflected in the Company's Consolidated Statements of Operations because no compensation charge arises when the price of the employees' stock options equals the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees. Pro forma information under SFAS 123 is as follows (in millions, except per-share amounts):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Net income (loss)--as reported	$ (1,014)	$ 2,668	$ 2,023
Net income (loss)--pro forma	$ (2,705)	$ 1,549	$ 1,487
Basic net income (loss) per share--as reported	$ (0.14)	$ 0.39	$ 0.30
Diluted net income (loss) per share--as reported	$ (0.14)	$ 0.36	$ 0.29
Basic net income (loss) per share--pro forma	$ (0.38)	$ 0.22	$ 0.22
Diluted net income (loss) per share--pro forma	$ (0.38)	$ 0.21	$ 0.21

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	EMPLOYEE STOCK OPTION PLANS			EMPLOYEE STOCK PURCHASE PLAN		
	July 28, 2001	July 29, 2000	July 31, 1999	July 28, 2001	July 29, 2000	July 31, 1999
Expected dividend	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.4%	6.4%	5.1%	5.3%	5.3%	4.9%
Expected volatility	34.8%	33.9%	40.2%	35.0%	43.3%	47.2%
Expected life (in years)	3.1	3.1	3.1	0.5	0.5	0.5

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. The Company uses projected volatility rates, which are based upon historical volatility rates trended into future years. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options. The weighted-average estimated fair values of employee stock options granted during fiscal 2001, 2000, and 1999 were $13.31, $19.44, and $8.40 per share, respectively.

Employee 401(k) Plans

The Company sponsors the Cisco Systems, Inc. 401(k) Plan (the "Plan") to provide retirement benefits for its employees. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary deductions for eligible employees. The Company also has other 401(k) plans that it sponsors. These plans arose from acquisitions of other companies and are not material to the Company on either an individual or aggregate basis.

Employees may contribute from 1% to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company matches employee contributions dollar for dollar up to a maximum of $1,500 per year per person. All matching contributions vest immediately. In addition, the Plan provides for discretionary contributions as determined by the Board of Directors. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. The Company's matching contributions to the Plan totaled $45 million, $34 million, and $20 million in fiscal 2001, 2000, and 1999, respectively. No discretionary contributions were made in fiscal 2001, 2000, or 1999.

12. INCOME TAXES

The provision for income taxes consisted of (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Federal:			
Current	$ 581	$ 1,843	$ 1,164
Deferred	(697)	(652)	(221)
	(116)	1,191	943
State:			
Current	157	282	112
Deferred	(199)	(118)	(24)
	(42)	164	88
Foreign:			
Current	326	332	151
Deferred	(28)	(12)	(2)
	298	320	149
Total	$ 140	$ 1,675	$ 1,180

The Company paid income taxes of $48 million, $327 million, and $301 million in fiscal 2001, 2000, and 1999, respectively. Income (loss) before provision for income taxes consisted of (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
United States	$(1,727)	$ 2,544	$ 2,092
International	853	1,799	1,111
Total	$ (874)	$ 4,343	$ 3,203

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

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Federal statutory rate	(35.0)%	35.0%	35.0%
Effect of:			
State taxes, net of federal tax benefit	(2.4)	1.9	2.2
Foreign sales corporation	(1.8)	(1.9)	(1.6)
Foreign income at other than U.S. rates	(1.7)	(1.6)	(1.0)
Nondeductible in-process R&D	30.3	7.6	3.9
Nondeductible goodwill	20.9	0.5	--
Nondeductible deferred stock-based compensation	8.0	--	--
Tax-exempt interest	(1.0)	(1.8)	(1.9)
Tax credits	(2.5)	(1.6)	(1.2)
Other, net	1.2	0.5	1.5
Total	16.0%	38.6%	36.9%

U.S. income taxes and foreign withholding taxes were not provided for on a cumulative total of $707 million of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States. The components of the deferred tax assets (liabilities) follow (in millions):

	July 28, 2001	July 29, 2000
ASSETS		
Allowance for doubtful accounts and returns	$ 466	$ 340
Lease reserves	325	47
Loan reserves	284	78
Inventory allowances and capitalization	706	94
Investment reserves	274	78
In-process R&D, goodwill, and purchased intangible assets	400	265
Deferred revenue	478	201
Credits and net operating loss carryforwards	414	1,023
Other	230	423
Gross deferred tax assets	3,577	2,549
Valuation allowance	--	(299)
Total deferred tax assets	3,577	2,250
LIABILITIES		
Purchased intangible assets	(266)	(257)
Unrealized gain on investments	(1)	(1,954)
Other	(187)	(80)
Total deferred tax liabilities	(454)	(2,291)
Total	$ 3,123	$ (41)

The noncurrent portion of the deferred tax assets, which totaled $1.31 billion at July 28, 2001, is included in other assets.

At July 29, 2000, the Company provided a valuation allowance on certain of its deferred tax assets because of uncertainty regarding their realizability due to expectation of future employee stock option exercises. As of July 28, 2001, the Company has removed the valuation allowance because it believes it is more likely than not that all deferred tax assets will be realized in the foreseeable future and was reflected as a credit to shareholders' equity.

As of July 28, 2001, the Company's federal and state net operating loss carryforwards for income tax purposes were $70 million and $16 million, respectively. If not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2007, and the state net operating loss carryforwards will begin to expire in fiscal 2005. As of July 28, 2001, the Company's federal and state tax credit carryforwards for income tax purposes were $291 million and $151 million, respectively. If not utilized, the federal and state tax credit carryforwards will begin to expire in fiscal 2005.

The Company's income taxes payable for federal, state, and foreign purposes have been reduced, and the deferred tax assets increased, by the tax benefits associated with dispositions of employee stock options. The Company receives an income tax benefit calculated as the difference between the fair market value of the stock issued at the time of exercise and the option price, tax effected. These benefits were credited directly to shareholders' equity and amounted to $1.75 billion, $3.08 billion, and $837 million for fiscal 2001, 2000, and 1999, respectively. Benefits reducing taxes payable amounted to $1.40 billion, $2.49 billion, and $837 million for fiscal 2001, 2000, and 1999, respectively. Benefits increasing gross deferred tax assets amounted to $358 million and $582 million in fiscal 2001 and 2000, respectively.

13. SEGMENT INFORMATION AND MAJOR CUSTOMERS

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

The Company conducts business globally and is managed geographically. The Company's management relies on an internal management system that provides sales and standard cost information by geographic theater. Sales are attributed to a theater based on the ordering location of the customer. The Company's management makes financial decisions and allocates resources based on the information it receives from this internal management system. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its geographic theaters in this internal management system, as management does not use the information to measure the performance of the operating segments. Management does not believe that allocating these expenses is significant in evaluating a geographic theater's performance. Information from this internal management system differs from the amounts reported under generally accepted accounting principles due to certain corporate-level adjustments not included in the internal management system. These corporate-level adjustments are primarily sales adjustments relating to reserves for leases and structured loans, deferred revenue, two-tier distribution, and other timing differences. Based on established criteria, the Company has four reportable segments: the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan.

Summarized financial information by theater for fiscal 2001, 2000, and 1999, as taken from the internal management system previously discussed, is as follows (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Net sales:			
Americas	$ 15,130	$ 12,924	$ 8,088
EMEA	6,288	4,770	3,216
Asia Pacific	2,384	1,705	825
Japan	1,540	935	566
Sales adjustments	(3,049)	(1,406)	(522)
Total	$ 22,293	$ 18,928	$ 12,173
Gross margin:			
Americas	$ 11,040	$ 9,412	$ 5,836
EMEA	4,737	3,581	2,380
Asia Pacific	1,665	1,215	586
Japan	1,199	737	436
Standard margins	18,641	14,945	9,238
Sales adjustments	(3,049)	(1,406)	(522)
Cost of sales adjustments	581	512	60
Production overhead	(615)	(455)	(255)
Manufacturing variances and other related costs	(4,486)	(1,414)	(607)
Total	$ 11,072	$ 12,182	$ 7,914

The net sales and standard margins by geographic theater differ from the amounts recognized under generally accepted accounting principles because the Company does not allocate certain sales adjustments, cost of sales adjustments, production overhead, and manufacturing variances and other related costs to the theaters. The above table reconciles the net sales and standard margins by geographic theater to net sales and gross margin as reported in the Consolidated Statements of Operations by including such adjustments.

Enterprise-wide information provided on geographic sales is based on the ordering location of the customer. Net sales from non-U.S. subsidiaries which were included in the Americas theater amounted to $1.24 billion, $911 million, and $634 million for fiscal 2001, 2000, and 1999, respectively.

Property and equipment information is based on the physical location of the assets. The following table presents property and equipment information for geographic areas (in millions):

	July 28, 2001	July 29, 2000	July 31, 1999
Property and equipment, net:			
United States	$1,966	$1,242	$ 711
International	625	184	114
Total	$2,591	$1,426	$ 825

The following table presents net sales for groups of similar products and services (in millions):

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Net sales:			
Routers	$ 8,655	$ 7,611	$ 5,196
Switches	10,586	7,509	5,167
Access	2,333	2,396	1,127
Service	2,734	1,926	1,081
Other	1,034	892	124
Sales adjustments	(3,049)	(1,406)	(522)
Total	$ 22,293	$ 18,928	$ 12,173

Substantially all of the Company's assets at July 28, 2001 and July 29, 2000 were attributable to U.S. operations. In fiscal 2001, 2000, and 1999, no single customer accounted for 10% or more of the Company's net sales.

14. NET INCOME (LOSS) PER SHARE

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

Years Ended	July 28, 2001	July 29, 2000	July 31, 1999
Net income (loss)	$(1,014)	$ 2,668	$ 2,023
Weighted-average shares--basic	7,196	6,917	6,646
Effect of dilutive securities:			
Employee stock options	--	521	416
Weighted-average shares--diluted	7,196	7,438	7,062
Net income (loss) per share--basic	$ (0.14)	$ 0.39	$ 0.30
Net income (loss) per share--diluted	$ (0.14)	$ 0.36	$ 0.29

The dilutive potential common shares that were antidilutive for fiscal 2001 amounted to 348 million shares.

15. SUBSEQUENT EVENTS (UNAUDITED)

PENDING BUSINESS COMBINATIONS

The Company announced definitive agreements to acquire AuroraNetics, Inc. and Allegro Systems, Inc. for a total purchase price of approximately $331 million payable in common stock. These acquisitions will be accounted for as purchases and are expected to close in the first quarter of fiscal 2002.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Cisco Systems, Inc. and its subsidiaries at July 28, 2001 and July 29, 2000, and the results of their operations and their cash flows for each of the three years in the period ended July 28, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 7, 2001

SUPPLEMENTARY FINANCIAL DATA AND STOCK MARKET INFORMATION (UNAUDITED)

(In millions, except per-share amounts)

Quarters Ended	July 28, 2001	April 28, 2001	Jan. 27, 2001	Oct. 28, 2000	July 29, 2000	April 29, 2000	Jan. 29, 2000	Oct. 30, 1999
Net sales	$ 4,298	$ 4,728	$ 6,748	$ 6,519	$ 5,720	$ 4,933	$ 4,357	$ 3,918
Gross margin	$ 2,436	$ 328	$ 4,167	$ 4,141	$ 3,662	$ 3,172	$ 2,818	$ 2,530
Net income (loss)(1)	$ 7	$ (2,693)	$ 874	$ 798	$ 796	$ 641	$ 816	$ 415
Net income (loss) per share--basic	$ 0.00	$ (0.37)	$ 0.12	$ 0.11	$ 0.11	$ 0.09	$ 0.12	$ 0.06
Net income (loss) per share--diluted(1)	$ 0.00	$ (0.37)	$ 0.12	$ 0.11	$ 0.11	$ 0.08	$ 0.11	$ 0.06
Market price range of common stock(2)								
High	$ 23.48	$ 38.25	$ 56.75	$ 68.62	$ 71.44	$ 80.06	$ 57.63	$ 37.00
Low	$ 16.20	$ 13.62	$ 33.31	$ 49.81	$ 50.55	$ 54.75	$ 35.00	$ 29.38

Note 1: Cisco provides pro forma net income and pro forma net income per share
data as an alternative for understanding its operating results. These measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from pro forma measures used by other companies. For further discussion on Cisco's pro forma results, refer to the Selected Financial Data section on page 13. Pro forma net income and pro forma net income per share--diluted are calculated as follows:

Quarters Ended	July 28, 2001	April 28, 2001	Jan. 27, 2001	Oct. 28, 2000	July 29, 2000	April 29, 2000	Jan. 29, 2000	Oct. 30, 1999
Net income (loss)	$ 7	$(2,693)	$ 874	$ 798	$ 796	$ 641	$ 816	$ 415
In-process research and development	--	109	237	509	461	488	43	381
Payroll tax on stock option exercises	5	10	18	22	26	25	--	--
Acquisition-related costs	--	--	--	--	37	--	25	--
Amortization of deferred stock-based compensation	49	70	30	6	--	--	--	--
Amortization of goodwill and purchased intangible assets	298	276	256	225	169	51	47	24
Net gains realized on minority investments	--	--	--	(190)	(344)	(156)	(31)	--
Restructuring costs and other special charges	--	1,170	--	--	--	--	--	--
Excess inventory charge	--	2,249	--	--	--	--	--	--
Excess inventory benefit	(187)	--	--	--	--	--	--	--
Income tax effect	(9)	(961)	(85)	(7)	53	(44)	(3)	(6)
Pro forma net income	$ 163	$ 230	$ 1,330	$ 1,363	$ 1,198	$ 1,005	$ 897	$ 814
Pro forma net income per share--diluted	$0.02	$ 0.03	$ 0.18	$ 0.18	$ 0.16	$ 0.13	$0.12	$0.11

Note 2: Cisco common stock is traded on the NASDAQ National Market under the
symbol CSCO. All stock prices are closing prices for each period indicated, adjusted for stock splits. The Company has never paid cash dividends on its common stock and has no present plans to do so. There were 73,521 registered shareholders of record at July 28, 2001.

EXHIBIT 21.01

SUBSIDIARIES OF THE COMPANY

Cisco Systems (Argentina) S.A.
Cisco Systems, Inc., Sucursal Argentina
Cisco Systems Australia Pty Limited
Cisco Systems Capital (Australia) Pty Limited Cisco Systems Wireless Networking (Australia) Pty Limited Cisco Systems Austria Gmbh
Cisco Systems Belgium S.P.R.L.
Cisco Systems (Bermuda) Holdings Ltd.
Cisco Systems (Bermuda) International Ip Management Ltd. Cisco Systems (Bermuda) Ip Holdings Ltd. Cisco Systems Insurance Services Ltd.
Cisco Systems International Holdings Ltd. Cisco Do Brasil Ltda.
Cisco Systems Bulgaria Eood
Nova Scotia Company
Canada Inc.
Cisco Systems Capital Canada Co./Les Systems Cisco Capital Canada CIE Cisco Systems Canada Co./Les Systemes Cisco Canada Cie Cisco Systems Co.
Cisco Systems Chile S.A.
Cisco Systems (China) Networking Technology Co., Ltd. Cisco Systems (Colombia) Limitada
Cisco Systems Costa Rica, Sociedad Anonima Cisco Systems Croatia Ltd. For Trade
Cisco Systems Cyprus Ltd.
Cisco Systems (Czech Republic) S.R.O.
Cisco Cable Products And Solutions A/S
Cisco Systems Danmark A/S
Cisco Systems Dominicana, S.A.
Cisco Systems International B.V., Dubai (Uae) Branch Office Cisco Systems Egypt Ltd.
Cisco Systems Finland Oy
Cisco Systems Europe Sarl
Cisco Optical Transport Germany Gmbh
Cisco Systems Gmbh
Cisco Systems Internetworking Hellas S.A. Cisco Systems (Hk) Limited
Cisco Systems Hungary Ltd. / Cisco Systems Hungary Servicing And Trading Limited Liability Company
Cisco Systems (India) Ltd., India Branch Office Cisco Systems (India) Private Limited
Cisco Systems (Hk) Limited, Indonesian Representative Office Pt Cisco Systems Indonesia
Baynard Limited
Charndon Limited
Chellington Limited
Chichley Limited
Cisco Systems Finance International
Cisco Systems Limited, Ireland Branch Office Rushthorpe Limited
Saxhow Limited
Cisco Systems International B.V., Israel Branch Office Cisco Systems Israel Ltd.
Cisco Systems O.I.A. (1998) Ltd.
Cisco Photonics Italy S.R.L.
Cisco Systems (Italy) S.R.L.

EXHIBIT 21.01

Cisco Systems K.K.
Cisco Systems Capital (Korea) Limited
Cisco Systems (Korea) Limited
Cisco Systems Management B.V., Latvia Representative Office Cisco Systems Management B.V., Lebanon Representative Office Cisco Systems Management B.V., Lithuania Representative Office Cisco Systems Belgium S.P.R.L., Luxembourg Representative Office Cisco Systems Luxembourg S.A R.L.
Cisco Systems (Malaysia) Sdn, Bhd
Cisco Systems De Mexico, S.A. De C.V.
Cisco Photonics Holding B.V.
Cisco Systems International B.V.
Cisco Systems Management B.V.
Cisco Systems Netherlands Holdings B.V.
Cisco Systems Capital (Australia) Pty Limited, New Zealand Branch Office Cisco Systems New Zealand Limited
Cisco Systems Norway As
Cisco Systems Pakistan (Private) Limited Cisco Systems Panama S. De R.L.
Cisco Systems Peru S.A.
Cisco Systems (Hk) Limited, Philippine Representative Office Cisco Systems Management B.V., Philippine Branch (Dba "Cisco Systems, Philippine Branch")
Cisco Systems Poland Sp. Z O.O.
Cisco Systems Portugal -- Sistemas Informaticos, Sociedade Unipessoal, Limitada
Cisco Systems Romania S.R.L.
Cisco Systems International B.V., Moscow (Russia) Representative Office Cisco Systems International B.V., Saudi Arabia Branch Cisco Systems (Scotland) Limited
Cisco Systems (Usa) Pte. Ltd.
Cisco Systems Slovakia Spol. S.R.O
Cisco Systems Management B.V., Podruznica Ljubljana [Branch Office In Ljubljana (Slovenia)]
Cisco Systems (South Africa) (Proprietary) Limited Cisco Systems (Spain) S.L.
Cisco Systems Management B.V., Sri Lanka Liaison Office Cisco Systems Ab
Cisco Systems (Sweden) Ab
Cisco Systems (Switzerland) Gmbh
Cisco Systems Taiwan Ltd.
Cisco Systems (Thailand) Limited
Cisco Systems Internetworking Iletisim Hizmetleri Limited Sirketi Cisco Systems Import/Export Corporation
Cisco Systems Management B.V., Ukraine Representative Office Calista Limited
Cisco Systems Limited
Stratacom Limited
Cisco Acquisition I, Inc.
Cisco Acquisition Ii, Inc.
Cisco Acquisition Iii, Inc.
Cisco Systems Capital Corporation
Telebit, Corporation (CA,USA)
Cisco Systems Capital Funding, Llc
Cisco Systems Finance, Inc.
Cisco Systems Holding, Inc.
Cisco Systems, Inc.
Cisco Systems (India) Ltd.

EXHIBIT 21.01

Cisco Systems Investments Ltd.
Cisco Systems Limited
Cisco Systems Sales & Services, Inc.
Cisco Technology, Inc.
Radiata Communications, Inc.
Metaplex Inc. USA
Cisco Photonics, Inc.
Radiata, Inc.
Cisco Systems (Puerto Rico) Corp.
Cisco Systems Venezuela, C.A.
Cisco Systems Vietnam Limited (Cong Ty Trach Nhiem Huu Han Cisco Systems Vietnam)
Cisco Systems Management B.V., Representative office in Hanoi Cisco Systems Management B.V., Zimbabwe Liaison Office

Exhibit 23.02

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos.: 333-79941, 333-82945,333-84663, 333-88917, 333-89893, 333-91241, 333-91239, 333-91285, 333-91897,333-89893, 333-92439, 333-92441, 333-92435, 333-92439, 333-94225, 333-94365, 333-94753, 333-94753, 333-94225, 333-89893, 333-92435, 333-91897, 333-91239, 333-91241, 333-88917, 333-91285, 333-92441, 333-92439, 333-94365, 333-34400, 333-36034, 333-36156, 333-34400, 333-36156, 333-38738, 333-39086, 333-39818, 333-39086, 333-39858, 333-39086, 333-43628, 333-45788, 333-45794, 333-45898, 333-46124, 333-47920, 333-47922, 333-51118, 333-56004, 333-56960, 333-57328) dated June 4, 1999, July 15, 1999, August 6, 1999, October 13, 1999, October 29, 1999, November 18, 1999, November 18, 1999, November 19, 1999, December 1, 1999,December 9, 1999, December 9, 1999, December 9, 1999, December 9, 1999, January 4, 2000, January 7, 2000, January 10, 2000, January 14, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 4, 2000, February 10, 2000, April 10, 2000, May 1, 2000, May 3, 2000, May 9, 2000, May 9, 2000, June 7, 2000, June 12, 2000, June 21, 2000, June 21, 2000, June 22, 2000, June 22, 2000, August 11, 2000, September 14, 2000, September 14, 2000, September 15, 2000, September 19, 2000, October 13, 2000, October 13, 2000, December 1, 2000, February 21, 2001, March 13, 2001, March 20, 2001, respectively, of Cisco Systems, Inc. and incorporation by reference in the Registration Statements on Form S-8 (Nos.: 33-63331, 33-64283, 333-64283 [Post Eff.], 333-01069, 333-02101, 333-05447 [Post Eff.], 333-09903, 333-14383, 333-14661, 333-14679, 333-16577, 333-17287, 333-24741, 333-33613, 333-33619, 333-35805, 333-01069 [Post Eff.] 333-34849 [Post Eff.], 33-40509 [Post Eff.] 33-44221 [Post Eff.] 33-71860 [Post Eff.] 33-87096 [Post Eff.] , 333-42249, 333-47159, 333-48949, 333-48949 [Post Eff.], 333-51093, 333-51315, 333-42249 [Post Eff.], 333-64651, 333-65871, 333-68335, 333-69117,333-74237, 333-79717, 333-79721, 333-81971, 333-83045, 333-83277, 333-88695, 333-88699, 333-88831, 333-90883, 333-90885, 333-83227 [Post Eff.], 333-91813, 333-91911, 333-93283, 333-93281, 333-96203, 333-96367, 333-35246, 333-36124, 333-36126, 333-36414, 333-39108, 333-39902, 333-43120, 333-43632, 333-45478, 333-47828, 333-51114, 333-51280, 333-54248, 333-55742, 333-56224, 333-56756, 333-56916, and 333-58556) dated October 11, 1995, November 15, 1995, February 20, 1996, February 20, 1996, April 1, 1996, July 29, 1996, August 9, 1996, October 18, 1996, October 23, 1996, October 23, 1996, November 21, 1996, December 5, 1996, April 8, 1997, August 14, 1997, August 14, 1997, September 17, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 10, 1997, December 15, 1997, March 2, 1998, March 31, 1998, April 13, 1998, April 27, 1998, April 29, 1998,September 28, 1998, September 29, 1998, October 19, 1998, December 3, 1998, December 17, 1998, March 11, 1999, June 1, 1999, June 1, 1999, June 30, 1999, July 16, 1999, July 20, 1999, October 8, 1999, October 8, 1999, October 12, 1999, November 12, 1999, November 12, 1999, November 12, 1999, November 30, 1999, December 1, 1999, December 21, 1999, December 21, 1999, February 4, 2000, February 8, 2000, April 20, 2000, May 2, 2000, May 2, 2000, May 5, 2000, June 12, 2000, June 22, 2000, August 4, 2000, August 11, 2000, September 8, 2000, October 12, 2000, December 1, 2000, December 5, 2000, January 24, 2001, February 16, 2001, February 26, 2001, March 8, 2001, March 12, 2001, April 9, 2001, respectively, of Cisco Systems, Inc. of our report dated August 7, 2001, relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated August 7, 2001 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
September 21, 2001

End of Filing