CISCO SYSTEMS, INC.

FORM 10-K
(Annual Report)

Filed 09/18/02 for the Period Ending 07/27/02

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 27, 2002

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 August 23, 2002, 7,285,904,553 shares of Registrant's common stock were outstanding. The approximate aggregate market value of voting stock held by non-affiliates of the Registrant was $103,281,833,311 (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 27, 2002 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 2002 Annual Meeting of Shareholders, to be held on November 19, 2002, are incorporated by reference into Part III of this Form 10-K where indicated.

PART I

ITEM 1. Business

General

This Annual Report on Form 10-K ("Report"), including the "Management's Discussion and Analysis of Financial Condition and Results of Operations" which is incorporated by reference from Cisco's 2002 Annual Report to Shareholders, contains forward-looking statements regarding future events and the future results of Cisco that are based on current expectations, estimates, forecasts, and projections about the industries in which Cisco operates and the beliefs and assumptions of the management of Cisco. Words such as 'expects,' 'anticipates,' 'targets,' 'goals,' 'projects,' 'intends,' 'plans,' 'believes,' 'seeks,' 'estimates,' variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled "Risk Factors" and elsewhere, and in other reports Cisco files with the Securities and Exchange Commission ("SEC"), specifically the most recent reports on Form 8-K and Form 10-Q, each as it may be amended from time to time. Cisco undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

Cisco Systems, Inc. ("Cisco") manufactures and sells networking and communications products and provides services associated with that equipment and its use. Its products are installed at corporations, public institutions, and telecommunication companies, and are also found in small and medium-sized commercial enterprises. Cisco provides a broad line of products for transporting data, voice, and video within buildings, across campuses, or around the world. Cisco conducts its business globally and is managed geographically in four segments: the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan (see Note 12, "Segment Information and Major Customers," on pages 46 and 47 of Cisco's 2002 Annual Report to Shareholders, which is incorporated by reference herein).

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

Products and Services

Cisco sells scalable, standards-based networking products that cover a wide range of customers' networking needs. Cisco's products and services help customers build their own network infrastructure while also providing tools to allow them to communicate with their customers, prospects, business partners, suppliers, and employees.

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. Cisco's breadth of product and service offerings enables it to offer a wide range of products and services to meet customer requirements. Cisco also provides products and services that allow customers to transition their various networks to a single multiservice data, voice, and video network.

Over time, Cisco believes that the Internet and the various networks associated with it, including but not limited to corporate intranets, cable, broadband and dialup networks, and voice and video networks, will converge into a “network of networks.” In that environment, the successful vendors will be those capable of providing an end-to-end spectrum of products aimed not at a particular technology platform but at solutions to networking problems which cut across the segmentation that currently defines the industry. As such, a large part of Cisco’s strategic initiatives and investments is aimed at meeting the requirements that such a network of networks would demand. For a discussion of the risks associated with that strategy, please see the portion of this Report entitled “Risk Factors,” including but not limited to the risk factor entitled, **“We depend upon the development of new products and enhancements to existing products and are subject to rapid changes in technology and the market.”**

Cisco’s offerings fall into several categories:

Routing

Routing is a foundation technology for computer networking. Routers interconnect computer networks and move information from one network to another. Cisco’s routing products offer features to increase security of transmissions and increase efficiency in use of transmission capacity. We offer a broad range of routers from core backbone infrastructure to small office deployments. In addition, Cisco’s storage networking products offer customers a variety of options in accessing and interconnecting storage networks that can be shared and managed globally.

Switching

Switching is another integral networking technology that is used in both local-area networks (“LANs”) and wide-area networks (WANs). Cisco’s switching products are designed to help users migrate from traditional shared LANs to fully switched networks. Cisco solutions employ several widely used switching technologies, including Ethernet, Gigabit Ethernet, Token Ring, and Asynchronous Transfer Mode (ATM).

Access

Cisco access products give remotely located groups and individuals similar levels of connectivity and information access to achieve seamless connections for users whether they are located at a company’s head office or at home or while they are traveling. Asynchronous and integrated services digital network (ISDN) remote-access routers, dialup access servers, wireless solutions, digital subscriber line (DSL) technologies, and cable universal broadband routers provide telecommuters, mobile workers, and students with remote network access.

Other Products

Other Cisco offerings include the following products:

IP Telephony

Cisco provides IP telephony products for transmitting voice communications over a network using an open, standards-based Internet Protocol. Cisco's IP telephony products use a single network infrastructure for the transmission of data, voice, and video traffic to deliver IP voice and fully integrated communications. IP telephony products provide a seamless migration to full IP communications by interoperating with existing systems.

Internet Network Service and Security

Cisco offers Internet network products and services to improve a network manager's ability to cope with challenges posed by the popularity of the Internet, such as network traffic volume and network address shortages. Cisco seeks to achieve architectural consistency by focusing on standards-based services between clients and servers such as end-to-end quality of service ("QoS") and end-to-end security.

Optical Networking

Cisco provides optical networking products for both the enterprise and service provider markets. Advances in next-generation Synchronous Optical Network/Synchronous Digital Hierarchy (SONET/SDH) provide an evolutionary path for telecommunications carriers from their existing infrastructures, as well as giving newer carriers and enterprises the capability to deploy cost-effective, multiservice networks. Cisco also uses optical technologies such as dense wave division multiplexing (DWDM) and coarse wave division multiplexing (CWDM) to scale optical bandwidth as high-bandwidth applications, such as Gigabit Ethernet and storage, to become more commonplace.

Network Management Software

Cisco's network management offerings are built around CiscoWorks software, a family of management applications based on Internet standards. These tools are designed to enable customers to better secure, monitor, and manage large, complex networks. For service providers, Cisco Internet OSS is a foundation and framework designed for next-generation, Internet Protocol ("IP")-based services and packet network infrastructure. Cisco Internet OSS provides management enablement of intelligent network services.

The technologies offered in conjunction with product offerings are Cisco AVVID and Cisco IOS® Software. Cisco AVVID provides an intelligent network infrastructure for Internet business solutions and consists of several architectural building blocks for key Internet services. Cisco IOS Software is a common networking software platform deployed across a broad spectrum of Cisco products.

Service

In addition to its product offerings, Cisco provides a broad range of service offerings, including technical maintenance support and consultative services, to assist customers in building and maintaining high-availability networks, in knowledge transfer, and in building customer satisfaction. Cisco services provide device-level, network-level, and application-level support for all stages of the network life cycle. These services help customers and channel partners by assisting them to deploy new technologies, achieve high-availability networking, streamline business processes, and reduce operating costs.

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 communications. Cisco's customer base is not concentrated in any particular industry and in each of the past three fiscal years, no single customer has accounted for 10 percent or more of Cisco's net sales. For additional information regarding segment information, see Note 12, "Segment Information and Major Customers," on pages 46 and 47 of Cisco's 2002 Annual Report to Shareholders, which is incorporated by reference herein.

Cisco's customers are primarily in the following markets:

Large Enterprise Businesses

Large enterprise businesses are generally defined as organizations with 500 or more employees and often have complex networking needs, as well as multiple locations, and various types of computer systems. Such enterprise customers include corporations, government agencies, utilities, and educational institutions. Cisco products for these customers include those designed for enterprise routing, switching, security, and IP telephony.

Service Providers

Service providers offer data, voice, and/or video communication services to businesses, governments, utilities, and consumers. They include regional, national, and international telecommunications carriers, as well as Internet, cable, and wireless service providers. Many service providers resell Cisco products to their own residential, enterprise, or commercial customers. These customers use a variety of Cisco switching, routing, and management products in their networks. Compared to other end-user customers, service provider customers are more likely to require network design services, and their business is characterized by long design cycles. Historically, service providers relied on equipment suppliers to take greater responsibility for implementation of turnkey solutions or to act as prime contractors in deploying network solutions, with implications for timing of revenue recognition. The large number of new entrants to this business in the late 1990s, and the eventual lack of sufficient customer demand for telecommunications services to meet the business plans of all entrants, has led to a condition of oversupply, leading many service providers to cease operations, and the remaining companies, particularly in the United States, to significantly reduce projected and actual technology-related capital expenditures.

Commercial

Commercial customers, primarily small and medium-sized businesses, 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, Cisco attempts to provide products that are affordable and easy to install and use. The commercial market remains an area of potential growth for network adoption and deployment of intelligent network solutions. The emerging markets, which include network security, mobility, and converged voice and data solutions, are of specific interest to small and medium-sized businesses. Cisco also works to set standards for the consumer market through the Internet Home Alliance.

Cisco Sales Overview

Cisco's worldwide sales and marketing organization, at July 27, 2002, consisted of approximately 14,000 individuals, including managers, sales representatives, and technical support personnel. Cisco has field sales offices in more than 60 countries and sells its products and services both directly and through channel partners with support from its sales force. Channel partners include distributors, value-added resellers, system integrators, and service providers. The system integrators and value-added resellers buying through distributors often provide system installation, technical support, and follow-up services to the end customers. For additional information regarding Cisco's sales, see Note 12, "Segment Information and Major Customers," on pages 46 and 47 of Cisco's 2002 Annual Report to Shareholders, which is incorporated by reference herein.

Cisco's service offerings complement its products via a range of consulting, technical, project, quality, and maintenance support-level services including 24x7 online and telephone support through technical assistance centers.

Cisco Systems Capital Corporation facilitates and provides lease and other financing to certain qualified customers for the purchase of equipment and other needs. For additional information regarding Cisco Systems Capital Corporation's financing activities, see Note 6, "Lease Receivables, Net," on page 37 of Cisco's 2002 Annual Report to Shareholders, which is incorporated by reference herein.

Acquisitions, Investments, and Alliances

The markets in which Cisco competes require 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. Through acquisitions, investments, and alliances Cisco is able to deliver products and services to customers in target markets.

Cisco employs 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.

Acquisitions

Since 1993, Cisco has acquired a number of companies and Cisco expects to make future acquisitions. Mergers and acquisitions of high-technology companies are inherently risky, especially if no product has been shipped by the acquired company. No assurance can be given that Cisco's previous or future acquisitions will be successful or will not materially adversely affect its financial condition or operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. The risks associated with acquisitions are more fully discussed in the "Risk Factors" section contained in Item 1 of this Report.

Investments in Privately Held Companies

Cisco makes minority investments in privately held companies that develop technology or provide services that are complementary to Cisco products or provide strategic value. By investing in new ventures, Cisco strengthens its relationships with such companies. The risks associated with acquisitions are more fully discussed in the "Risk Factors" section contained in Item 1 of this Report.

Strategic Alliances

Cisco pursues strategic alliances with other companies 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, or new-market creation. Currently, Cisco has entered into strategic alliances with Callisma, Cap Gemini/Ernst & Young, EDS, Hewlett-Packard/Compaq, IBM, Intel, Italtel, KPMG Consulting, Microsoft, Motorola, Oracle, Sony, and Sun Microsystems, among others.

Backlog

Cisco’s backlog at September 9, 2002 was approximately $1.4 billion, compared with a backlog of approximately $2.0 billion at September 14, 2001. We include in backlog only orders confirmed with a purchase order for products to be shipped within 90 days to customers with approved credit status. Because of the generally short cycle between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), Cisco 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 networking and communications equipment markets, providing products and services for transporting data, voice, and video traffic across intranets, extranets, and the Internet. The market is characterized by rapid change, converging technologies, and a migration to networking solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to Cisco. Cisco 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.

Cisco’s competitors include 3Com, Alcatel, Avaya, Avici, Check Point Software, Ciena, Dell, Ericsson, Enterasys, Extreme Networks, Foundry Networks, Fujitsu, Huawei, Juniper, Lucent, Marconi, Nokia, Nortel Networks, Redback Networks, Riverstone, Siemens AG, and Sycamore Networks, among others. Some of these companies compete across many of Cisco’s product lines, while others are primarily focused in a specific product area. Barriers to entry are relatively low, and new ventures to create products that do or could compete with Cisco’s products are regularly formed. In addition, several of Cisco’s current and potential competitors may have greater resources, including technical and engineering resources, than it does.

The principal competitive factors in the markets in which we presently compete and may compete in the future include:

- The ability to provide a broad range of networking products and services;
- Product performance;
- Price;
- The ability to provide new products;
- The ability to provide value-added features such as security, reliability, and investment protection;
- Conformance to standards;
- Market presence; and
- The ability to provide financing.

Cisco also faces competition from customers to whom it licenses or supplies technology and suppliers from whom it transfers technology. The inherent nature of networking requires interoperability. As such, we must cooperate and at the same time compete with many companies. Any inability of Cisco 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 its business, operating results, and financial condition and accordingly affect its chances of success.

Research and Development

Cisco regularly seeks to introduce new products and features in areas including, among others, data, voice, and video over IP; advanced access and aggregation technologies such as cable, wireless and other broadband technologies; advanced enterprise switching; optical transport; storage networking; content networking; security; network management; and advanced core and edge routing technologies.

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, Cisco's success, in part, depends upon its ability, on a cost-effective and timely basis, to continue to enhance its existing products and to develop and introduce new products that improve performance and reduce total cost of ownership. In order to achieve these objectives, Cisco's management and engineering personnel work with customers to identify and respond to customer needs, as well as with other innovators of internetworking products, including universities, laboratories, and corporations. Cisco also expects to continue to make acquisitions and investments where appropriate. Cisco intends to work to achieve products that meet key 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 products to address new customer requirements and technological changes, or that such products will achieve market acceptance.

Cisco's research and development expenditures were $3.4 billion, $3.9 billion, and $2.7 billion in fiscal 2002, 2001, and 2000, respectively. All of Cisco's expenditures for research and development costs, as well as in-process research and development of $65 million, $855 million, and $1.4 billion in fiscal 2002, 2001, and 2000, respectively, have been expensed as incurred.

Manufacturing

Cisco primarily employs an outsourced manufacturing strategy that relies on contract manufacturers for manufacturing services. Cisco's manufacturing operations primarily consist of quality assurance of materials and components, subassemblies, final assembly and test of products. We presently use a variety of independent third-party companies to provide services related to printed circuit board assembly, in-circuit test, and product repair as well as product assembly. Cisco and its suppliers 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 Cisco to configure the hardware and software in unique combinations to meet a wide variety of individual customer requirements. Cisco also uses automated testing equipment and burn-in procedures, as well as comprehensive inspection, testing, and statistical process control, to ensure the quality and reliability of its products. Cisco and its partners' manufacturing processes and procedures are generally ISO 9001 or ISO 9003 certified.

Patents, Intellectual Property, and Licensing

Cisco seeks to establish and maintain its proprietary rights in its technology and products through the use of patents, copyrights, trademarks, and trade secret laws. Cisco has a program to file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where it believes filing for such protection is appropriate. Cisco also seeks to maintain its trade secrets and confidential information by non-disclosure policies and through the use of appropriate confidentiality agreements. Cisco has obtained a substantial number of patents in the United States and in other countries. The existence of patents does not mean, however, that these patents are valid or can be enforced against competitive products in every jurisdiction. Although Cisco believes the protection afforded by its patents, patent applications, copyrights, trademarks and trade secrets has value, the rapidly changing technology in the networking industry and uncertainties in the legal process makes Cisco's future success dependent primarily on the innovative skills, technological expertise, and management abilities of its employees rather than on the protection afforded by patent, copyright, trademark, and trade secret laws.

Many Cisco 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, based upon past experience and standard industry practice that such licenses generally could be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability of Cisco 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 its business, operating results, and financial condition. Moreover, inclusion in Cisco's products of software or other intellectual property licensed from third parties on a non-exclusive basis can limit Cisco's ability to protect its proprietary rights in its products.

The industry in which Cisco competes is characterized by rapidly changing technology, a large number of patents, and frequent claims and related litigation regarding patent and other intellectual property rights. There can be no assurance that Cisco's patents and other proprietary rights will not be challenged, invalidated or circumvented, that others will not assert intellectual property rights to technologies that are relevant to Cisco, or that its rights will give Cisco a competitive advantage in which it competes. In addition, the laws of some foreign countries may not protect Cisco's proprietary rights to the same extent as the laws of the United States. The risks associated with patents and intellectual property are more fully discussed in the "Risk Factors — **Our business depends upon our proprietary rights, which might prove difficult to enforce, and there is a risk our products could be held to infringe rights of third parties** " section contained in Item 1 of this Report.

Employees

As of July 27, 2002, Cisco has approximately 36,000 employees, including 6,000 in manufacturing and service; 13,000 in engineering; 14,000 in sales and marketing; and 3,000 in finance and administration. Approximately 10,000 employees are in locations outside the United

States. Cisco considers the relationships with its employees to be positive. Competition for technical personnel in the industry in which Cisco competes is intense. Cisco believes that its future success depends in part on its continued ability to hire, assimilate, and retain qualified personnel. To date, Cisco believes that it has been successful in recruiting qualified employees, but there is no assurance that it 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.

OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of a number of factors. These factors include:

- Fluctuations in demand for our products and services, such as has occurred in the last two fiscal years, especially with respect to Internet businesses and telecommunications service providers;
- Changes in sales and implementation cycles for our products and the reduced visibility into our customers’ spending plans and associated revenue;
- Our ability to maintain appropriate inventory levels and purchase commitments;
- Price and product competition in the communications and networking industries which can change rapidly due to technological innovation;
- The overall trend toward industry consolidation both among our competitors and our customers;
- 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 and size of orders from customers;
- Manufacturing lead times;
- Fluctuations in our gross margins;
- Our ability to achieve targeted cost reductions;
- The ability of our customers and suppliers to obtain financing or to fund capital expenditures;
- The timing and amount of employer payroll tax to be paid on employees’ gains on stock options exercised;
- Actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our financial statements; and
- Changes in accounting rules, such as recording expenses for employee stock option grants.

As a consequence, operating results for a particular future period are difficult to predict, and therefore, prior results are not necessarily indicative of results to be expected in future 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.

OUR BUSINESS MAY BE ADVERSELY AFFECTED BY UNFAVORABLE ECONOMIC AND MARKET CONDITIONS

Adverse economic conditions worldwide have contributed to slowdowns in the communications and networking industries and may continue to impact our business, resulting in:

- Reduced demand for our products as a result of a decrease in capital spending by our customers, particularly service providers;
- Increased price competition for our products, partially as a consequence of customers disposing of unutilized products;
- Increased risk of excess and obsolete inventories;
- Excess facilities and manufacturing capacity; and
- Higher overhead costs as a percentage of revenues.

Recent political turmoil in many parts of the world, including terrorist and military actions, may continue to put pressure on global economic conditions. If the economic and market conditions in the United States and globally do not improve, or if they deteriorate further, we may continue to experience material adverse impacts on our business, operating results, and financial condition as a consequence of the above factors or otherwise. We do not expect the trend of lower capital spending among service providers to reverse itself in the near term.

OUR DIFFICULTY IN PREDICTING REVENUES MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS AND FINANCIAL RESULTS

As a result of a variety of factors discussed in this Report, our revenues for a particular quarter are difficult to predict. Our net sales may grow at a slower rate than experienced in past 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 past quarters recurs in future periods. We have experienced periods of time where shipments exceeded net bookings, leading to nonlinearity in shipping patterns. This can increase costs, as irregular shipment patterns result in periods of underutilized capacity and periods when overtime expenses may be incurred, as well as leading to additional costs arising out of inventory management.

In addition, to improve customer satisfaction, we continue to attempt to reduce our 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. In the past, long manufacturing lead times caused our customers to place the same order multiple times within our various sales channels and cancel the duplicative orders when the product is received from one of the channels from where it was ordered, or place orders with other vendors with shorter manufacturing lead times. Such multiple ordering (along with other factors) may cause difficulty in predicting our sales, and as a result could impair our ability to manage parts inventory effectively.

We plan our operating expense levels primarily based on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short-term. A shortfall in revenue could lead to operating results being below expectations 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.

WE EXPECT GROSS MARGIN VARIABILITY OVER TIME

Although we have experienced increasing product gross margins during fiscal 2002, product gross margins may be adversely affected in the future by a number of factors, including but not limited to:

- Changes in customer, geographic or product mix, including mix of configurations within each product group;
- Increases in material or labor costs;
- Excess inventory;
- Obsolescence charges;
- Changes in shipment volume;
- Loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- Increased price competition;
- Changes in distribution channels;
- Increased warranty costs; and
- Introduction of new products and costs of entering new markets.

Changes in service gross margin may result from various factors such as the changes in mix between technical support and consultative services, as well as the timing of support contract renewals.

DISRUPTION OF OR CHANGES IN THE MIX OF OUR PRODUCT DISTRIBUTION MODEL OR CUSTOMER BASE COULD AFFECT SALES AND MARGINS

If we fail to manage distribution of our products and services properly, or if our distributors' financial condition or operations weaken, our revenues and gross margins could be adversely affected. Furthermore, a change in the mix of our customers between service provider and enterprise, or a change in mix of direct sales and indirect sales, can adversely affect revenues and gross margins.

We use a variety of channels to bring our products to our customers, including system integrators, two-tier distributors who in turn sell to resellers, and direct sales to both enterprise accounts and service providers. Since each distribution channel has a distinct profile, the failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our gross margin and, therefore, profitability.

For example:

- As we respond to demand from certain categories of customers to sell directly to them, we could risk alienating channel partners and adversely affecting our distribution model.

- Because direct sales may compete with the sales made by channel partners, these channel partners may elect to use other suppliers that do not directly sell their own products.

- Some of our system integrators may demand that we absorb a greater share of the risks that their customers may ask them to bear, affecting our gross margin.

- Some of our channel partners may have insufficient financial resources and may not be able to withstand changes in business conditions, including the recent economic downturn. Revenues from indirect sales could suffer if our distributors' financial condition or operations weaken.

- Service provider customers may demand rigorous acceptance testing or prime contracting. As we develop more "solution" oriented products, enterprise customers may demand similar terms and conditions. Such terms and conditions can lower gross margin and defer revenue recognition.

We must manage inventory effectively, particularly with respect to sales to distributors. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors that are available to the distributor and to seasonal fluctuations in end-user demand. If we have excess inventory, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins. Our two-tier distribution channels, in contrast to our one-tier distributors, are given privileges to return a portion of inventory and participate in various cooperative marketing programs. In addition, if sales through indirect channels increase, this may lead to greater difficulty in forecasting the mix of our products, and to a certain degree, the timing of orders from our customers. We recognize revenue to two-tier distributors based on information provided by our distributors and also maintain accruals and allowances for all cooperative marketing and other programs.

SALES TO THE SERVICE PROVIDER MARKET ARE ESPECIALLY VOLATILE

Sales to the service provider market have been characterized by large and often sporadic purchases with longer sales cycles. We have experienced significant decreases in sales to service providers as market conditions have changed. 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. Continued declines or delays in sales orders from this industry could have a material adverse effect on our business, operating results, and financial condition, particularly as we continue to invest in development of new products aimed at this market segment. The slowdown in the general economy, over-capacity, 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. Finally, service provider customers typically have longer design cycles, require a broader range of service, including design services, demand that vendors take on a larger share of risks, often have acceptance provisions which can lead to a delay in revenue recognition and expect financing from vendors. All these factors can add further risk to business conducted with service providers.

WE ARE DEPENDENT UPON ADEQUATE COMPONENT SUPPLY AND MANUFACTURING CAPACITY

Our growth and ability to meet customer demands also depend in part on our ability to obtain timely deliveries of parts from our suppliers. We have experienced component shortages in the past that have adversely affected our operations. We may in the future experience a short supply of certain component parts as a result of strong demand in the industry for those parts or problems experienced by suppliers. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed. Accordingly, our revenues and gross margins could suffer until other sources can be developed. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

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; and
- 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 contract manufacturers and suppliers to provide manufacturing services for 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 contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete components which could adversely affect our gross margins. For additional information regarding our purchase commitments, see Note 8, “Commitments and Contingencies,” on pages

38 to 40 of our 2002 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, a failure to adequately authorize procurement of inventory by our contract manufacturers, or a decrease in demand of products could materially adversely affect our business, operating results and financial condition and could materially damage customer relationships. Furthermore, as a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are higher than those available in the current market. In the event that we become committed to purchase components at prices in excess of the current market price when the components are actually utilized, our gross margins could decrease.

The fact that we do not own the bulk of our manufacturing facilities could have an adverse impact on future products supply and on operating results. Financial problems of contract manufacturers on whom we rely, or reservation of capacity by other companies, inside or outside of our industry, could either limit supply or increase costs.

WE HAVE MANY SUBSTANTIAL COMPETITORS

For additional information regarding our competition, and the risks arising out of the competitive environment in which we operate, see the section entitled "Competition" contained in Item 1 of this Report.

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

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. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the costs to produce existing products. As we have indicated in Part 1 of this Report, we believe the Internet and other data, voice and video networks are evolving into a "network of networks" which will require common technology platforms and broad end-to-end solutions for particular applications rather than products aimed at particular market segments. In that environment, customers will be more concerned with overall solutions rather than with whether the solution is built around a particular technology, such as routing or switching. The process of developing new technology is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to develop new products before knowing whether our investments will result in products the market will accept. In particular, if the "network of networks" does not emerge as we believe it will, many of our investments may prove to be without value. Furthermore, we may not execute successfully on that vision because of errors in product planning or timing, technical hurdles which we fail to overcome in timely fashion, or because of lack of appropriate resources. This could result in competitors providing those solutions before we do, and loss of market share, revenues and earnings. The success of new products is dependent on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. 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; CHANGES IN INDUSTRY STRUCTURE COULD LEAD TO PRODUCT DISCONTINUANCES

A substantial portion of our business and revenue depends on growth of the Internet and on the deployment of our products by customers that depend on the continued growth of the Internet. As a result of the economic slowdown and the reduction in capital spending, which has particularly affected telecommunications service providers, 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.

Because of the rapid introduction of new products, and changing customer requirements related to matters such as cost-effectiveness and security, we believe that there could 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 own products. Such an event could also result in a material adverse effect on the market price of our common stock independent of direct effects on our business, and could materially adversely affect our business, operating results, and financial condition.

In response to changes in industry and market conditions, we may be required to 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 special charges, such as inventory and technology related write-offs and workforce reduction costs, or claims from third parties who were resellers or users of discontinued products. Estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

WE EXPECT TO MAKE FUTURE ACQUISITIONS; ACQUISITIONS INVOLVE NUMEROUS RISKS

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. We have and will continue to address the need to develop new products through acquisitions of other companies and technologies, including the personnel such acquisitions may bring to us. Acquisitions involve numerous risks, including the following:

- Difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- Diversion of management’s attention from normal daily operations of the business;
- Potential difficulties in completing projects associated with in-process research and development;
- Difficulties in 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; and
- The potential loss of key employees of the acquired companies.

Acquisitions may also cause us to:

- Issue common stock that would dilute our current shareholders’ percentage ownership;
- Assume liabilities;
- Record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- Incur amortization expenses related to certain intangible assets;
- Incur large and immediate write-offs; or
- Become subject to litigation.

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. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that all preacquisition due diligence will have identified all possible issues that might arise with respect to such products.

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.

See also the discussion of risks related to new product development, which also applies to acquisitions, above under the risk factor entitled, **“We depend upon the development of new products and enhancements to existing products and are subject to rapid changes in technology and the market.”**

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 as well as 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 provided in the past. We expect that demand for these types of service or financing 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 a delay in the timing of revenue recognition.

PRODUCT QUALITY PROBLEMS COULD LEAD TO REDUCED REVENUES AND GROSS MARGINS

We produce highly complex products which incorporate leading-edge technology, including both hardware and software. Software typically contains “bugs” which can unexpectedly interfere with expected operations. There can be no assurance that our pre-shipment testing programs will be adequate to detect all defects — either in individual products or which could affect numerous shipments — which might interfere with customer satisfaction, reduce sales opportunities, or affect gross margins if the cost of remedying the problems exceeded reserves established for that purpose. In the past, we have had to recall certain components. While the cost of such recalls was not material, there can be no assurance that such a recall, depending on the product involved, would not have a material impact. An inability to cure a product defect could result in the failure of a product line, and withdrawal, at least temporarily from a product or market segment, damage to our reputation, inventory costs, product reengineering expenses, and a material impact on revenues and margins.

THE INDUSTRY IN WHICH WE COMPETE AND THE INDUSTRIES IN WHICH OUR CUSTOMERS COMPETE, ARE SUBJECT TO CONSOLIDATION

There has been a trend toward industry consolidation in our markets 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 and could have a material adverse effect on our business, operating results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace comprised of more numerous participants.

OUR BUSINESS IS SUBJECT TO RISKS FROM GLOBAL OPERATIONS

We conduct significant sales and customer support operations in countries outside of the United States and also depend on non-U.S. operations of our contract manufacturers and our distribution partners. For fiscal 2002, we derived 46% of our revenues from sales outside the United States. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; political or social unrest or economic instability in a specific country or region; trade protection measures and other regulatory requirements which may affect our ability to import or export our products from various countries; service provider and government spending patterns affected by political considerations; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries. Any or all of these factors could have a material adverse impact on our future business.

WE ARE EXPOSED TO FLUCTUATIONS IN CURRENCY EXCHANGE RATES

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in non-U.S. currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to non-dollar-denominated sales in Japan, Canada, and Australia, and certain non-dollar-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 can have extreme currency volatility. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

Currently, 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 activities undertaken by us are intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. Our attempts to hedge against these risks may not be successful resulting in an adverse impact on our net income.

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

Most of our sales are on an “open credit” basis, with payment terms of 30 days typically in the United States, and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Beyond our open credit arrangements, we have also experienced demands for customer financing and facilitation of leasing arrangements. We expect demand for customer financing to 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 other costs associated with network installation and integration of our products and for working capital purposes.

Because of the current slowdown in the global economy, our exposure to the credit risks relating to our financing activities described above have increased. Although we have programs in place to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks. There have been significant bankruptcies among customers both on open credit and with loan or lease financing arrangements, particularly among Internet businesses and service providers, causing us to incur economic or financial losses. There can be no assurance that, should economic conditions not improve, additional losses would not be incurred, and that such losses would not be material. Although these losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition.

A portion of our sales is derived through our resellers in two-tier distribution channels. These resellers/customers are generally given privileges to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such exposures. However, such resellers tend to have more limited financial resources than other resellers and end-user customers and therefore, represent potential sources of increased credit risk because they may be more likely to lack the reserve resources to meet payment obligations.

OUR BUSINESS DEPENDS UPON OUR PROPRIETARY RIGHTS, WHICH MIGHT PROVE DIFFICULT TO ENFORCE, AND THERE IS A RISK OUR PRODUCTS COULD BE HELD TO INFRINGE RIGHTS OF THIRD PARTIES

We generally rely on patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. While we have been issued a number of patents and 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 under these patents will in fact provide competitive advantages to us. 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 our technology. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. If we are unable to protect our proprietary rights in a market we may find ourselves at a competitive disadvantage to others who do not have to incur the substantial expense, time and effort required to create the innovative products which have enabled us to be successful.

From time to time, third parties have asserted exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents and the rapid rate of issuance of new patents, it is not economically practical nor even possible to determine in advance whether a product or any of its components infringe or will infringe the patent rights of others. Third parties, including customers, have asserted claims and/or initiated litigation, and may in the future assert claims or initiate litigation, against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements; where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, in all such circumstances, or that our indemnification by their suppliers will be adequate to cover their costs if a claim were brought directly against us or our customers. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results and financial condition could be materially and adversely affected.

Many of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. 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 our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a non-exclusive basis could limit our ability to protect our proprietary rights in our products.

WE FACE RISKS FROM THE UNCERTAINTIES OF REGULATION OF THE INTERNET

Currently, few laws or regulations 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. Such regulations could include matters such as voice over the Internet or using Internet Protocol, 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 engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective 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, operating results, 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.

CHANGES IN EFFECTIVE TAX RATES COULD AFFECT OUR RESULTS

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof.

OUR BUSINESS IS ESPECIALLY SUBJECT TO THE RISKS OF EARTHQUAKES, FLOODS, AND OTHER NATURAL CATASTROPHIC EVENTS, AND TO INTERRUPTION BY MANMADE PROBLEMS SUCH AS COMPUTER VIRUSES OR TERRORISM

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 terrorist attacks in New York and Washington, D.C. on September 11, 2001 disrupted commerce throughout the world and intensified the uncertainty of the U.S. and other economies. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to these economies and create further uncertainties. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders, or the manufacture or shipment of our products, our business, operating results and financial condition could be materially and adversely affected.

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 Consolidated Balance Sheets 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 equity investments in several publicly traded companies, the values of which are subject to market price volatility. Recent events have adversely affected the public equities market and general economic conditions may continue to worsen. As a result, we may recognize in earnings the decline in fair value of our publicly traded equity investments below the cost basis when the decline is judged 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 23 and 24 of our 2002 Annual Report to Shareholders which is incorporated by reference herein. Furthermore, our equity investments in both publicly traded companies and private companies are subject to risk of loss of investment capital. 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 investment in these companies.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH STRATEGIC ALLIANCES

We have several strategic alliances with large and complex organizations and other companies with whom we work to offer complementary products and services. 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 telecommunications requirements in the United States or other countries could affect the sales of our products. In particular, we believe it is possible that there may be changes in U.S. telecommunications regulations in the 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 CONTINUE TO BE VOLATILE

Our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results, and the published expectations of analysts, and as a result of announcements by our competitors and us. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business or significant transactions can cause changes in stock price. 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 an owned site in San Jose, California. In addition to this site, the Company has certain owned sites in the United States, both completed and under construction, which include 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 has land for expansion in some of these locations.

Outside the United States, the Company has operations, primarily in leased sites, in the Americas; EMEA; Asia Pacific; and Japan. Larger site locations include the United Kingdom, France, Belgium, the Netherlands, Singapore, Hong Kong, Australia, Japan, and India. The Company has owned and leased manufacturing facilities, which are primarily test and assembly operations, in three locations in the United States and none internationally. We believe that our existing properties are in good condition and suitable for the conduct of our business.

For additional information regarding the Company's obligations under leases, see Note 8, "Commitments and Contingencies," on pages 38 to 40 of the Company's 2002 Annual Report to Shareholders, which is incorporated by reference herein. For additional information regarding the Company's properties by operating segment, see Note 12, "Segment Information and Major Customers" on pages 46 and 47 of the Company's 2002 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 were filed in the United States District Court for the Northern District of California against Cisco and certain of its officers and directors. The lawsuits have been consolidated, and the consolidated action is purportedly brought on behalf of those who purchased the Company's publicly traded securities between August 10, 1999 and February 6, 2001. Plaintiffs allege that defendants have made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. Cisco 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 were filed in the Superior Court of California, County of Santa Clara and in the Superior Court of California, County of San Mateo. There is a procedure in place for the coordination of such actions. Two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and those federal court actions have been consolidated. 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 49 of the Company's 2002 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 2002 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 22 of the Company's 2002 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 23 and 24 of the Company's 2002 Annual Report to Shareholders.

ITEM 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated by reference to pages 25 to 49 of the Company's 2002 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 19, 2002, which information is incorporated herein by reference.

Executive Officers of the Registrant

Name	Age	Position	Position Held Since
Larry R. Carter	59	Senior Vice President, Finance and Administration, Chief Financial Officer, Secretary, and Director 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., QLogic Corporation, and Transmeta Corporation; and is on the Board of Trustees for Loyola Marymount University.	1997
John T. Chambers	53	President, Chief Executive Officer, and Director 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.	1995
Richard J. Justice	52	Senior Vice President, Worldwide Field Operations 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.	2000
Mario Mazzola	56	Senior Vice President, Chief Development Officer 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 June 2000, Mr. Mazzola took on the leadership of Cisco’s new technology development efforts as Senior Vice President of New Business Ventures. 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.	2001

Name	Age	Position	Position Held Since
Randy Pond	48	Senior Vice President, Worldwide Manufacturing Operations and Logistics Mr. Pond joined the Company in September 1993. In 1994, Mr. Pond assumed leadership of Cisco's Supply / Demand group. In 1994, he was appointed Director of Manufacturing Operations. He was promoted to Vice President of Manufacturing in 1995. In June 1999, Mr. Pond was promoted to Senior Vice President of West Coast and Asia operations. He was promoted into his current role in June 2001, increasing his responsibilities to his present day role. Prior to joining the Company, Mr. Pond held the position of Vice President Finance, Chief Financial Officer and Vice President of Operations at Crescendo Communications, Inc.	2001
James Richardson	45	Senior Vice President, Chief Marketing Officer Mr. Richardson joined the Company in May 1990, founded 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. He 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.	2001

ITEM 11. Executive Compensation

The information appearing under the caption "Executive Compensation and Related Information" in the Company's Proxy Statement that is related to the Annual Meeting of Shareholders, to be held on November 19, 2002, 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 that is related to the Annual Meeting of Shareholders, to be held on November 19, 2002, 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 that is related to the Annual Meeting of Shareholders, to be held on November 19, 2002, is incorporated herein by reference.

ITEM 14. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the “Exchange Act”) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls. There were no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The financial statements listed in Item 15(a) are filed or incorporated herein by reference as part of this Report. See Index to Financial Statements and Financial Statement Schedule on Page 34.

2. Financial Statement Schedule

The financial statement schedule listed in Item 15(a) is filed as part of this Report. See Index to Financial Statements and Financial Statement Schedule on Page 34.

3. Exhibits

The exhibits listed in the accompanying Index to Exhibits on page 43 are filed or incorporated by reference as part of this Report.

(b) Reports on Form 8-K

The Company filed two reports on Form 8-K during the quarter ended July 27, 2002. Information regarding the items reported on is as follows:

Date	Item Reported On
May 14, 2002	On April 30, 2002, the Company announced the acquisitions of Hammerhead Networks, Inc. and Navarro Networks, Inc.
July 3, 2002	On June 25, 2002, the Company completed the acquisition of Hammerhead Networks, Inc. On June 27, 2002, the Company completed the acquisition of Navarro Networks, Inc.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

Item 15(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 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	$ —
Year ended July 27, 2002:				
Allowance for doubtful accounts	$ 288	$ 91	$ 44	$ 335
Allowance for excess and obsolete inventory	$2,279	$ 149	$1,964	$ 464

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated August 6, 2002, except for Note 14, as to which the date is August 19, 2002, appearing in the 2002 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 15(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 6, 2002

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 12th day of September, 2002.

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 12, 2002
/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 12, 2002
/s/ John P. Morgridge John P. Morgridge	Chairman of the Board and Director	September 12, 2002
/s/ Donald T. Valentine Donald T. Valentine	Vice Chairman of the Board and Director	September 12, 2002
/s/ Carol A. Bartz Carol A. Bartz	Director	September 12, 2002

Signature	Title	Date
/s/ Carly Fiorina Carly Fiorina	Director	September 12, 2002
/s/ Dr. James F. Gibbons Dr. James F. Gibbons	Director	September 12, 2002
/s/ John L. Hennessey John L. Hennessey	Director	September 12, 2002
/s/ James C. Morgan James C. Morgan	Director	September 12, 2002
/s/ Arun Sarin Arun Sarin	Director	September 12, 2002
/s/ Steven M. West Steven M. West	Director	September 12, 2002
/s/ Jerry Yang Jerry Yang	Director	September 12, 2002

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, John T. Chambers, President and Chief Executive Officer of Cisco Systems, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Cisco Systems, Inc. (the “Registrant”);

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the “Evaluation Date”); and

c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls; and

6. The Registrant’s other certifying officers and I have indicated in this Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: September 17, 2002

/s/ John T. Chambers

President and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Larry R. Carter, Senior Vice President, Finance and Administration, Chief Financial Officer and Secretary of Cisco Systems, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Cisco Systems, Inc. (the “Registrant”);

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the “Evaluation Date”); and

c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls; and

6. The Registrant's other certifying officers and I have indicated in this Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: September 17, 2002

/s/ Larry R. Carter

Senior Vice President, Finance and Administration,
Chief Financial Officer and Secretary
(Principal Financial Officer)

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)
4.3	Second 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.) (7)
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 *	Cisco Systems, Inc. Professional and Leadership Incentive Plan-Fiscal Year 2002 (3)
10.13 *	Cisco Systems, Inc. 1989 Employee Stock Purchase Plan (6)
13	Pages 13 to 49 of the Registrant's 2002 Annual Report to Shareholders
21.01	Subsidiaries of the Company
23.02	Consent of Independent Accountants
99.1	Certification of Principal Executive Officer
99.2	Certification of Principal Financial Officer

(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 as Exhibit 10.12 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended January 26, 2002.

(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 Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 27, 2001.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.

Selected Financial Data

Five Years Ended July 27, 2002 (In millions, except per-share amounts)

	July 27, 2002	July 28, 2001	July 29, 2000	July 31, 1999	July 25, 1998
Net sales	**$18,915**	$22,293	$18,928	$12,173	$8,489
Net income (loss)	**$ 1,893**	$ (1,014)	$ 2,668	$ 2,023	$1,331
Net income (loss) per share—basic	**$ 0.26**	$ (0.14)	$ 0.39	$ 0.30	$ 0.21
Net income (loss) per share—diluted(1)	**$ 0.25**	$ (0.14)	$ 0.36	$ 0.29	$ 0.20
Shares used in per-share calculation—basic	**7,301**	7,196	6,917	6,646	6,312
Shares used in per-share calculation—diluted(1)	**7,447**	7,196	7,438	7,062	6,658
Cash and cash equivalents and total investments	**$21,456**	$18,517	$20,499	$10,214	$5,793
Total assets	**$37,795**	$35,238	$32,870	$14,893	$9,043

Note 1: 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 weighted-average dilutive potential common shares which were antidilutive for fiscal 2001 amounted to 348 million shares.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified below, as well as on the inside cover of this Annual Report and in the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Forms 10-K, 10-Q, and 8-K, each as it may be amended from time to time. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts and sales returns, inventory allowances, warranty costs, investment impairments, goodwill impairments, contingencies, restructuring costs and other special charges, and taxes. Actual results could differ materially from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our revenue.

A reserve for sales returns is established based on historical trends in product return rates. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

Inventory purchases and commitments are based upon future demand forecasts. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margins could be adversely affected.

We accrue for warranty costs based on historical trends in product return rates and the expected material and labor costs to provide warranty services. If we were to experience an increase in warranty claims compared with our historical experience, or costs of servicing warranty claims were greater than the expectations on which the accrual had been based, our gross margins could be adversely affected.

We have experienced significant volatility in the market prices of our publicly traded equity investments. These investments are recorded on the Consolidated Balance Sheets at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss), net of any related tax effect. We recognize an impairment charge in the Consolidated Statements of Operations when the decline in the fair value of our publicly traded equity investments below their cost basis is judged to be other-than-temporary. We consider various factors in determining whether we should recognize an impairment charge including, but not limited to, the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The ultimate value realized on these equity investments is subject to market price volatility until they are sold.

We perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances for each reporting unit, which are the operating segments as described in Note 12 to the Consolidated Financial Statements. In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing, or otherwise exiting businesses, which could result in an impairment of goodwill.

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

Comparison of Fiscal 2002 and 2001

Net Sales

We manage our business based on four geographic theaters: the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. Net sales, which include product and service revenue, for each theater are summarized in the following table (in millions, except percentages):

	AMOUNT		PERCENTAGE OF NET SALES	
Years Ended	**July 27, 2002**	July 28, 2001	**July 27, 2002**	July 28, 2001
Net sales:				
Americas	**$11,083**	$12,740	**58.6%**	57.2%
EMEA	**4,837**	5,903	**25.6%**	26.5%
Asia Pacific	**1,673**	2,193	**8.8%**	9.8%
Japan	**1,322**	1,457	**7.0%**	6.5%
Total	**$18,915**	$22,293	**100.0%**	100.0%

Net sales in fiscal 2002 decreased by $3.4 billion or 15.2% from $22.3 billion in fiscal 2001 to $18.9 billion. The decrease was primarily related to a decline in net product sales resulting from unfavorable global economic conditions and reduced levels of information technology-related capital spending compared with a year ago. The economic slowdown has had a significant impact on the telecommunications industry.

Product Revenue

From a geographic perspective, net product sales in the Americas theater, which include the United States, Canada, Mexico, and Latin America, decreased by $1.7 billion or 17.3% from $10.0 billion in fiscal 2001 to $8.3 billion in fiscal 2002 and represented 52.8% of our total product sales. The decrease was primarily related to the decline in net product sales in the service provider market, in particular the Incumbent Local Exchange Carriers (ILEC) and Interexchange Carriers (IXC) sectors. The slowdown in the U.S. economy, over-capacity, changes in the service provider market, and constraints on information technology-related capital spending have had a significant adverse effect on many of our service provider customers. The enterprise market experienced a lower decrease in net product sales as compared with the service provider market primarily because of the need for large corporations, specifically in the manufacturing, health care, education, and retail sectors, and the U.S. government, to maintain their networks.

Net product sales in EMEA in fiscal 2002 decreased by $1.4 billion or 23.1% from $5.9 billion in fiscal 2001 to $4.5 billion and represented 29.0% of our total product sales. Similar to the Americas theater, the decrease in net product sales was related to the slowdown in the European telecommunications sector and the enterprise market due to companies closely managing their capital spending.

Net product sales in Asia Pacific in fiscal 2002 decreased by $600 million or 27.4% from $2.2 billion in fiscal 2001 to $1.6 billion and represented 10.2% of our total product sales. The decrease was primarily related to the decline in net product sales in the enterprise and service provider markets, in particular the service provider market in China, which experienced increased consolidation and restructuring.

Net product sales in Japan in fiscal 2002 decreased by $196 million or 13.5% from $1.5 billion in fiscal 2001 to $1.3 billion and represented the remaining 8.0% of our total product sales. The decrease was primarily related to contractions in the electronics sector partially offset by net product sales to the government sector.

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

Years Ended	**July 27, 2002**	July 28, 2001
Net sales:		
Routers	**$ 5,607**	$ 7,179
Switches	**7,560**	8,979
Access	**980**	1,855
Other	**1,522**	1,546
Product	**15,669**	19,559
Service	**3,246**	2,734
Total	**$18,915**	$22,293

Net product sales related to routers, which represented 35.8% of our total product sales in fiscal 2002, decreased by $1.6 billion or 21.9% from $7.2 billion in fiscal 2001 to $5.6 billion primarily due to decreases in sales of our high-end and edge routers. Net product sales related to switches, which represented 48.2% of our total product sales in fiscal 2002, experienced a decrease of $1.4 billion or 15.8% from $9.0 billion in fiscal 2001 to $7.6 billion primarily due to decreases in sales of our modular and WAN multiservice switches. Net product sales related to access products, which represented 6.3% of our total product sales in fiscal 2002, decreased by $875 million or 47.2% from $1.9 billion in fiscal 2001 to $980 million primarily related to decreases in sales of our access concentrators and digital subscriber line access multiplexer (DSLAM) products.

Service Revenue

Net service revenue in fiscal 2002 increased by $512 million or 18.7% from $2.7 billion in fiscal 2001 to $3.2 billion. The increase in net service revenue was primarily related to technical support, which provides maintenance and problem resolution services for our products. In addition, revenue from consultative support of our technologies for specific customer networking needs increased. During fiscal 2002, service contract renewals associated with product sales increased compared with the prior fiscal year. Net service revenue is generally deferred and, in most cases, recognized ratably over the service period obligations, which are typically one to three years.

Gross Margin

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

	AMOUNT		STANDARD MARGIN	
Years Ended	**July 27, 2002**	July 28, 2001	**July 27, 2002**	July 28, 2001
Gross margin:				
Americas	**$ 8,422**	$ 9,118	**76.0%**	71.6%
EMEA	**3,856**	4,413	**79.7%**	74.8%
Asia Pacific	**1,368**	1,508	**81.8%**	68.8%
Japan	**1,060**	1,134	**80.2%**	77.8%
Standard margin	**14,706**	16,173	**77.7%**	72.5%
Production overhead	**(651)**	(615)		
Manufacturing variances and other related costs	**(2,042)**	(4,486)		
Total	**$12,013**	$11,072		

Standard margin varies due to a number of reasons including, but not limited to, shifts in product mix, sales discounts, and sales channels. Production overhead is primarily related to labor, depreciation on equipment, and facilities charges associated with manufacturing activities. Manufacturing variances and other related costs are primarily related to provision for inventory, which included the additional excess inventory charge of $2.2 billion in fiscal 2001 as discussed below, as well as freight and other nonstandard costs.

Gross margin for product and service in fiscal 2002 and 2001 was as follows (in millions, except percentages):

	AMOUNT		PERCENTAGE	
Years Ended	**July 27, 2002**	July 28, 2001	**July 27, 2002**	July 28, 2001
Gross margin:				
Product	**$ 9,755**	$ 9,361	**62.3%**	47.9%
Service	**2,258**	1,711	**69.6%**	62.6%
Total	**$12,013**	$11,072	**63.5%**	49.7%

Product Gross Margin

The increase in product gross margin from 47.9% in fiscal 2001 to 62.3% in fiscal 2002 was primarily related to the effect of a charge for additional excess inventory of $2.2 billion recorded in the third quarter of fiscal 2001 and benefits recognized thereafter as described below.

Excluding the additional excess inventory charge and the subsequent benefits, product gross margin was 58.9% in fiscal 2002, compared with 58.4% in fiscal 2001. The slight increase in product gross margin of 0.5% was primarily due to lower component costs that were partially offset by lower shipment volumes.

Because of a sudden and significant decrease in demand for our products in the third quarter of fiscal 2001, inventory levels exceeded our estimated requirements based on demand forecasts and an additional excess inventory charge of $2.2 billion was recorded in accordance with our accounting policy. In fiscal 2002, the provision for inventory was reduced by a $525 million benefit related to inventory used to manufacture products sold in excess of our expectations and the settlement of purchase commitments for less than the estimated amount previously included as part of the additional excess inventory charge (see Note 4 to the Consolidated Financial Statements). The following is a summary of the change in the additional excess inventory reserve (in millions):

	Excess Inventory Reserve	Excess Inventory Benefit
Initial charge in the third quarter of fiscal 2001	$ 2,249	
Usage:		
Inventory scrapped	(105)	$ –
Sale of inventory	(89)	9
Inventory utilized	(49)	49
Settlement of purchase commitments	(329)	129
	(572)	$ 187
Reserve balance as of July 28, 2001	1,677	
Usage:		
Inventory scrapped	(975)	$ –
Sale of inventory	(64)	14
Inventory utilized	(408)	408
Settlement of purchase commitments	(173)	103
	(1,620)	$ 525
Reserve balance as of July 27, 2002	**$ 57**	

Product gross margin may be adversely affected in the future by increases in material or labor costs, excess inventory and obsolescence charges, changes in shipment volume, loss of cost savings due to changes in component pricing, charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand, price competition, and changes in channels of distribution or in the mix of products sold. If warranty costs associated with our products are greater than we have experienced, product gross margin may also be adversely affected. Product gross margin may also be affected by geographic mix, as well as the mix of configurations within each product group.

Two-tier distribution channels are given privileges to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. In addition, increasing two-tier 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 recognize revenue to two-tier distributors based on information provided by our distributors and also maintain accruals and allowances for all cooperative marketing and other programs.

Service Gross Margin

The increase in service gross margin from 62.6% in fiscal 2001 to 69.6% in fiscal 2002 was primarily due to higher service revenue and cost efficiencies in the delivery of our services. Service gross margin will typically experience some variability over time due to various factors, such as the changes in mix between technical support and consultative services, as well as the timing of contract renewals.

Research and Development, Sales and Marketing, and General and Administrative Expenses

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):

	AMOUNT		PERCENTAGE OF NET SALES	
Years Ended	**July 27, 2002**	July 28, 2001	**July 27, 2002**	July 28, 2001
Research and development	**$3,448**	$3,922	**18.2%**	17.6%
Sales and marketing	**$4,264**	$5,296	**22.5%**	23.8%
General and administrative	**$ 618**	$ 778	**3.3%**	3.5%

Management's Discussion and Analysis of Financial Condition and Results of Operations

In the third quarter of fiscal 2001, we announced a restructuring program to prioritize our initiatives around a focus on profit contribution, high-growth areas of our business, reduction of expenses, and improved efficiency. This restructuring program included a worldwide workforce reduction, consolidation of excess facilities, and restructuring of certain business functions. For additional information regarding the restructuring program, see Note 4 to the Consolidated Financial Statements. During the third quarter of fiscal 2002, we increased the restructuring liabilities related to the consolidation of excess facilities and other charges by $93 million due to changes in real estate market conditions. The increase in the restructuring liabilities related to the consolidation of excess facilities and other charges was recorded as R&D ($39 million), sales and marketing ($42 million), and G&A ($8 million) expenses and cost of sales ($4 million) in the Consolidated Statements of Operations.

R&D, sales and marketing, and G&A expenses decreased in absolute dollars from the prior fiscal year primarily due to the impact of the restructuring program and cost control measures to contain hiring and to reduce discretionary spending. Total R&D, sales and marketing, and G&A expenses in the fourth quarter of fiscal 2002 decreased by approximately $600 million compared with the quarter prior to the restructuring charge.

R&D expenses in fiscal 2002 were $3.4 billion, compared with $3.9 billion in fiscal 2001, a decrease of $474 million or 12.1%. A significant portion of the decrease in R&D expenses was due to lower expenditures on prototypes, lower depreciation on lab equipment, and reduced discretionary spending. We have continued to invest in R&D efforts in a wide variety of areas such as data, voice, and video over IP; advanced access and aggregation technologies such as cable, wireless, and other broadband technologies; advanced enterprise switching; optical transport; storage networking; content networking; security; network management; and advanced core and edge routing technologies; among others. We have also continued to purchase or license technology in order to bring a broad range of products to 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 2002 were $4.3 billion, compared with $5.3 billion in fiscal 2001, a decrease of $1.0 billion or 19.5%. The decrease in sales and marketing expenses was primarily due to a decrease in the size of our sales force and marketing organization, reduced marketing and advertising investments, and reduced general promotional and marketing program expenses.

G&A expenses in fiscal 2002 were $618 million, compared with $778 million in fiscal 2001, a decrease of $160 million or 20.6%. The decrease in G&A expenses was primarily related to the reductions in investments in infrastructure, personnel in support and administrative functions, and discretionary spending.

Amortization of Goodwill

We elected to early-adopt Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), effective the beginning of fiscal 2002. SFAS 142 requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired, rather than amortized as previous accounting standards required. In accordance with SFAS 142, we ceased amortizing goodwill. Based on the impairment tests performed, there was no impairment of goodwill in fiscal 2002. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. For additional information regarding SFAS 142, see Note 2 to the Consolidated Financial Statements.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets included in operating expenses was $699 million in fiscal 2002, compared with $365 million in fiscal 2001. The increase in the amortization of purchased intangible assets was primarily related to additional amortization from recent acquisitions, accelerated amortization for certain technology and patent intangibles due to a reduction in their estimated useful lives, and a write down of certain technology and patent intangibles. This write down totaled $159 million and was due to the continued downturn in the optical market primarily related to the reduced demand for long haul products, resulting in a significant adverse impact on the expected future cash flows of these purchased intangible assets. For additional information regarding purchased intangible assets, see Note 3 to the Consolidated Financial Statements.

In-Process Research and Development

The amount expensed to in-process research and development ("in-process R&D") was related to our purchase acquisitions and was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed (see Note 3 to the Consolidated Financial Statements). The fair value of the existing purchased technology and patents, as well as the technology under development, was 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 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 efforts 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 2002 and 2001 (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 2002		
Allegro Systems, Inc.	**$ 5**	**52.5%**
AuroraNetics, Inc.	**$ 2**	**35.0%**
Hammerhead Networks, Inc.	**$ 2**	**23.0%**
Navarro Networks, Inc.	**$ 1**	**23.0%**
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%

The assumptions primarily consist of an expected completion date for the in-process projects, estimated costs to complete the projects, revenue and expense projections assuming the products have entered the market, and discount rates based on the risks associated with the development life cycle of the in-process technology acquired. 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. Actual results from the acquired companies to date did not have a material adverse impact on our business and operating results except for certain purchase acquisitions where the purchased intangible assets were impaired and written down as reflected in the Consolidated Statements of Operations.

Interest and Other Income (Loss), Net

Interest and other income (loss), net, is summarized in the following table (in millions):

Years Ended	**July 27, 2002**	July 28, 2001
Interest income	**$ 895**	$ 967
Other income (loss), net	**(1,104)**	163
Total	**$ (209)**	$1,130

Interest income was $895 million in fiscal 2002, compared with $967 million in fiscal 2001. The decrease in interest income was primarily due to lower average interest rates.

Other income (loss) primarily consists of net realized gains (losses) and impairment charges on investments, as well as provision for losses on investments in privately held companies. Other income (loss) was ($1.1) billion in fiscal 2002, compared with $163 million in fiscal 2001. The net loss in fiscal 2002 included a charge of $858 million recorded in the first quarter related to the impairment of certain publicly traded equity securities in our investment portfolio. This impairment charge was due to the decline in the fair value of our publicly traded equity investments below the cost basis that was judged to be other-than-temporary.

Provision for Income Taxes

The effective tax rate was 30.1% for fiscal 2002 and (16.0%) for fiscal 2001. 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, state taxes, and the tax impact of non-U.S. operations.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Comparison of Fiscal 2001 and 2000

Net product revenue in fiscal 2001 was $19.6 billion, compared with $17.0 billion in fiscal 2000, an increase of 15.0%. 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.

Net service revenue in fiscal 2001 was $2.7 billion, compared with $1.9 billion in fiscal 2000, an increase of 42.0%. 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 2001 was 49.7%, compared with 64.4% in fiscal 2000. The decrease in the gross margin was primarily due to an additional excess inventory charge that was recorded in the third quarter of fiscal 2001, as previously discussed.

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

	AMOUNT		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%

The increase in R&D, sales and marketing, and G&A expenses compared with fiscal 2000 was consistent with our overall increase in net sales during the first half of fiscal 2001. R&D, sales and marketing, and G&A expenses as a percentage of net sales for fiscal 2001 increased compared with the prior fiscal year primarily due to a 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 our 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 2001 increased by 34.2% from fiscal 2000. The increase in sales and marketing expenses was primarily 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.

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.

During fiscal 2001, we recorded restructuring costs and other special charges of $1.2 billion and an additional excess inventory charge of $2.2 billion. For additional information regarding the restructuring program, see Note 4 to the Consolidated Financial Statements.

Amortization of goodwill was $690 million in fiscal 2001, compared with $154 million in fiscal 2000. Amortization of purchased intangible assets included in operating expenses was $365 million in fiscal 2001, compared with $137 million in fiscal 2000. Amortization of goodwill and purchased intangible assets increased as we acquired companies and technologies.

Interest and other income (loss), net, was $1.1 billion in both fiscal 2001 and 2000. Interest income increased in fiscal 2001 to $967 million, compared with $615 million in fiscal 2000. The increase in interest income was primarily related to the general increase in cash and investments generated from our operations. Other income (loss) decreased in fiscal 2001 to $163 million, compared with $493 million in fiscal

2000. The decrease in other income (loss) was primarily related to lower net realized gains on investments.

The effective tax rate was (16.0%) for fiscal 2001 and 38.6% for fiscal 2000. 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, state taxes, and the tax impact of non-U.S. operations.

Recent Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 establishes a single accounting model, based on the framework established in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), for long-lived assets to be disposed of by sale, and resolves implementation issues related to SFAS 121. We are required to adopt SFAS 144 no later than the first quarter of fiscal 2003. We do not expect the adoption of SFAS 144 to have a material impact on our operating results or financial position.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of SFAS 146 to have a material impact on our operating results or financial position.

Liquidity and Capital Resources

The following sections discuss the effects of the changes in our balance sheets, cash flows, and commitments on our liquidity and capital resources.

Balance Sheet and Cash Flows

Cash and Cash Equivalents and Total Investments Cash and cash equivalents and total investments were $21.5 billion at July 27, 2002, an increase of $2.9 billion or 15.9% from $18.5 billion at July 28, 2001. The increase was primarily a result of cash provided by operating activities of $6.6 billion and cash provided by the issuance of common stock of $655 million. This increase was partially offset by cash used in capital expenditures of $2.6 billion primarily related to the purchase of land and buildings under synthetic lease agreements as discussed below, cash used for the repurchase of common stock of $1.9 billion, and a net decrease of approximately $500 million in the fair value of investments (see Quantitative and Qualitative Disclosures About Market Risk).

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, shipment linearity, accounts receivable collections, inventory management, and the timing of tax and other payments. For additional discussion, see the Risk Factors section in our Form 10-K.

Accounts Receivable, Net Accounts receivable was $1.1 billion at July 27, 2002, a decrease of $361 million or 24.6% from $1.5 billion at July 28, 2001. Days sales outstanding ("DSO") in receivables decreased to 21 days at July 27, 2002 from 31 days at July 28, 2001. The decrease in accounts receivable and DSO was primarily due to shipment linearity and collections performance. Our targeted range for DSO performance is 40 to 50 days.

Inventories, Net Inventories were $880 million at July 27, 2002, a decrease of $804 million or 47.7% from $1.7 billion at July 28, 2001. Inventories consist of raw materials, work in process, finished goods, and demonstration systems. Approximately 37.4% of our finished goods inventory was located at distributor sites. Inventory turns, excluding the additional excess inventory benefits previously discussed, were 7.1 turns in the fourth quarter of fiscal 2002 and 4.6 turns in the fourth quarter of fiscal 2001. The improved inventory levels and associated inventory turns reflected our ongoing inventory management efforts. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

Property and Equipment, Net Property and equipment were $4.1 billion at July 27, 2002, an increase of $1.5 billion or 58.3% from $2.6 billion at July 28, 2001. In fiscal 2002, we elected to purchase all of the land and buildings, as well as sites under construction, under synthetic lease agreements. The total purchase price was approximately $1.9 billion and was primarily funded by the liquidation of restricted investments and lease deposits. As a result, we no longer have any sites under such synthetic lease agreements.

Commitments

Certain Investments in Privately Held Companies We have entered into investment agreements with two privately held companies, AYR Networks, Inc. ("AYR") and Andiamo Systems, Inc. ("Andiamo").

On July 25, 2002, we announced a definitive agreement to acquire the remaining interests of AYR for a purchase price of approximately $113 million payable in common stock. This acquisition will be accounted for under the purchase method and is expected to close in the first quarter of fiscal 2003.

In the case of Andiamo, as of July 27, 2002, we had an option to acquire the remaining interests not owned by us for consideration consisting of shares of our common stock. In addition, Andiamo had a put option enabling them to require us to acquire the remaining interests not owned by us, subject to the fulfillment of various conditions, including the achievement of specified technology and other milestones. As of July 27, 2002, we funded $63 million of our $84 million investment commitment to Andiamo. Upon full funding of the commitment and based on certain terms and conditions, we will hold a promissory note that is convertible into approximately 44% of the equity of Andiamo. We are also committed to provide additional funding to Andiamo through the closing of the acquisition of approximately $100 million. Since making our initial investment in the third quarter of fiscal 2001, we have expensed the entire amount funded as R&D costs, as if such expenses constituted our development costs.

On August 19, 2002, we entered into a definitive agreement to acquire Andiamo, which represented the exercise of our rights (see Note 14 to the Consolidated Financial Statements).

<u>Purchase Commitments with Contract Manufacturers and Suppliers</u> We use several contract manufacturers and suppliers to provide manufacturing services for 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 contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us. As of July 27, 2002, we have purchase commitments for inventory of approximately $800 million.

<u>Other Commitments</u> In fiscal 2001, we entered into an agreement to invest approximately $1.0 billion in venture funds managed by SOFTBANK Corp. and its affiliates ("SOFTBANK"). These venture funds are required to be funded upon demand by SOFTBANK. As of July 27, 2002, we have funded $100 million of this investment commitment.

We provide structured financing to certain qualified customers to be used for the purchase of equipment and other needs through our wholly-owned subsidiary, Cisco Systems Capital Corporation. At July 27, 2002, the outstanding loan commitments were approximately $948 million, subject to the customers achieving certain financial covenants, of which approximately $209 million was eligible for draw down. These loan commitments may be funded over a two- to three-year period, provided that these customers achieve specific business milestones and financial covenants.

We have entered into several agreements to purchase or construct real estate, subject to the satisfaction of certain conditions. As of July 27, 2002, the total amount of commitments, if certain conditions are met, was approximately $491 million.

At July 27, 2002, we have a commitment of approximately $190 million to purchase the remaining portion of the minority interest of Cisco Systems, K.K. (Japan).

We also have certain other funding commitments of approximately $152 million at July 27, 2002 related to our privately held investments.

Stock Repurchase Program

In September 2001, the Board of Directors authorized a stock repurchase program to acquire outstanding common stock in the open market or negotiated transactions. Under the program, up to $3 billion of our common stock could be reacquired over two years. In August 2002, the Board of Directors increased our stock repurchase program by $5 billion to a total of $8 billion of our common stock available for repurchase through September 12, 2003.

During fiscal 2002, we repurchased and retired approximately 124 million shares of our common stock for an aggregate purchase price of approximately $1.9 billion. Including the amount approved by the Board of Directors in August 2002 as discussed above, the remaining authorized amount for stock repurchase is $6.1 billion.

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, commitments (see Note 8 to the Consolidated Financial Statements), future customer financings, and other liquidity requirements associated with our existing operations through at least the next 12 months. In addition, there are no transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

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 Consolidated Balance Sheets 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 equity investments in several publicly traded companies, the values of which are subject to market price volatility. During fiscal 2002, the net change in unrealized gains and losses on investments included as a separate component of comprehensive income was $224 million primarily due to the recognition of a charge of $858 million, pre-tax, in the first quarter attributable to the impairment of certain publicly traded equity securities, partially offset by a net decrease of approximately $500 million in the fair value of investments (see Note 9 to the Consolidated Financial Statements). The impairment charge was related to the decline in the fair value of our publicly traded equity investments below their cost basis that was judged to be other-than-temporary.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material impact on interest earnings of our investment portfolio. We do not currently hedge these interest rate exposures.

We have also invested in several privately held companies, many of which can still be considered in the start-up or development stages. These investments are inherently risky as the markets 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. As of July 27, 2002, these investments decreased to $477 million from $775 million at July 28, 2001 primarily due to additional provisions for losses.

Investments

The following table presents the hypothetical changes in fair value of the financial instruments held at July 27, 2002 that are sensitive to changes in interest rates (in millions):

	VALUATION OF SECURITIES GIVEN AN INTEREST RATE DECREASE OF X BASIS POINTS			FAIR VALUE AS OF	VALUATION OF SECURITIES GIVEN AN INTEREST RATE INCREASE OF X BASIS POINTS		
Issuer	(150 BPS)	(100 BPS)	(50 BPS)	JULY 27, 2002	50 BPS	100 BPS	150 BPS
U.S. government notes and bonds	$ 4,637	$ 4,580	$ 4,524	$ 4,467	$ 4,410	$ 4,353	$ 4,297
Corporate notes and bonds	7,178	7,098	7,018	6,938	6,859	6,779	6,699
Total	$ 11,815	$ 11,678	$ 11,542	$ 11,405	$ 11,269	$ 11,132	$ 10,996

These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the change in fair value 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, which are representative of the historical movements in the Federal Funds Rate.

The following table presents the hypothetical changes in fair value 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			FAIR VALUE AS OF	VALUATION OF SECURITIES GIVEN X% INCREASE IN EACH STOCK'S PRICE		
Issuer	(75%)	(50%)	(25%)	JULY 27, 2002	25%	50%	75%
Corporate equity securities	$ 142	$ 284	$ 425	$ 567	$ 709	$ 851	$ 992

Our equity portfolio consists of securities with characteristics that most closely match the S&P Index or companies traded on the Nasdaq National Market. These equity securities are held for purposes other than trading. The modeling technique used measures the hypothetical change in fair value 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 and are representative of the historical movements in the Nasdaq Composite Index.

Quantitative and Qualitative Disclosures about Market Risk

Derivative Instruments

We enter into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments, and payables primarily denominated in Australian, Canadian, Japanese, Korean, and several European currencies, including the euro and British pound. We also periodically hedge foreign currency forecasted transactions related to certain operating expenses with currency options. Foreign exchange forward and option contracts as of July 27, 2002 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Purchased	$ 561	$ 2
Sold	$ 712	$ (4)
Option contracts:		
Purchased	$ 752	$ 24
Sold	$ 675	$ (3)

Our foreign exchange forward contracts related to current assets and liabilities generally range from one to three months in original maturity. Additionally, we have entered into foreign exchange forward contracts related to long-term customer financings with maturities of up to two years. The foreign exchange contracts related to investments generally have maturities of less than one year. 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 do not expect gains or losses on these derivative instruments to have a material impact on our financial results or financial condition (see Note 8 to the Consolidated Financial Statements).

Consolidated Statements of Operations

(In millions, except per-share amounts)

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
NET SALES:			
Product	**$15,669**	$19,559	$17,002
Service	**3,246**	2,734	1,926
Total net sales	**18,915**	22,293	18,928
COST OF SALES:			
Product	**5,914**	10,198	5,970
Service	**988**	1,023	776
Total cost of sales	**6,902**	11,221	6,746
GROSS MARGIN	**12,013**	11,072	12,182
OPERATING EXPENSES:			
Research and development	**3,448**	3,922	2,704
Sales and marketing	**4,264**	5,296	3,946
General and administrative	**618**	778	633
Restructuring costs and other special charges	**–**	1,170	–
Amortization of goodwill	**–**	690	154
Amortization of purchased intangible assets	**699**	365	137
In-process research and development	**65**	855	1,373
Total operating expenses	**9,094**	13,076	8,947
OPERATING INCOME (LOSS)	**2,919**	(2,004)	3,235
Interest and other income (loss), net	**(209)**	1,130	1,108
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	**2,710**	(874)	4,343
Provision for income taxes	**817**	140	1,675
NET INCOME (LOSS)	**$ 1,893**	$ (1,014)	$ 2,668
Net income (loss) per share—basic	**$ 0.26**	$ (0.14)	$ 0.39
Net income (loss) per share—diluted	**$ 0.25**	$ (0.14)	$ 0.36
Shares used in per-share calculation—basic	**7,301**	7,196	6,917
Shares used in per-share calculation—diluted	**7,447**	7,196	7,438

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In millions, except par value)

	July 27, 2002	July 28, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 9,484**	$ 4,873
Short-term investments	**3,172**	2,034
Accounts receivable, net of allowance for doubtful accounts of $335 at July 27, 2002 and $288 at July 28, 2001	**1,105**	1,466
Inventories, net	**880**	1,684
Deferred tax assets	**2,030**	1,809
Lease receivables, net	**239**	405
Prepaid expenses and other current assets	**523**	564
Total current assets	**17,433**	12,835
Investments	**8,800**	10,346
Restricted investments	**–**	1,264
Property and equipment, net	**4,102**	2,591
Goodwill	**3,565**	3,189
Purchased intangible assets, net	**797**	1,470
Lease receivables, net	**39**	253
Other assets	**3,059**	3,290
TOTAL ASSETS	**$37,795**	$35,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 470**	$ 644
Income taxes payable	**579**	241
Accrued compensation	**1,365**	1,058
Deferred revenue	**3,143**	2,470
Other accrued liabilities	**2,496**	2,553
Restructuring liabilities	**322**	386
Total current liabilities	**8,375**	7,352
Deferred revenue	**749**	744
Total liabilities	**9,124**	8,096
Commitments and contingencies (Note 8)		
Minority interest	**15**	22
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; 7,303 and 7,324 shares issued and outstanding at July 27, 2002 and July 28, 2001, respectively	**20,950**	20,051
Retained earnings	**7,733**	7,344
Accumulated other comprehensive loss	**(27)**	(275)
Total shareholders' equity	**28,656**	27,120
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$37,795**	$35,238

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In millions)

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Cash flows from operating activities:			
Net income (loss)	**$ 1,893**	$ (1,014)	$ 2,668
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**1,957**	2,236	863
Provision for doubtful accounts	**91**	268	40
Provision for inventory	**149**	2,775	339
Deferred income taxes	**(573)**	(924)	(782)
Tax benefits from employee stock option plans	**61**	1,397	2,495
Adjustment to conform fiscal year ends of pooled acquisitions	**–**	–	(18)
In-process research and development	**53**	739	1,279
Net (gains) losses on investments and provision for losses	**1,127**	43	(92)
Restructuring costs and other special charges	**–**	501	–
Change in operating assets and liabilities:			
Accounts receivable	**270**	569	(1,043)
Inventories	**673**	(1,644)	(887)
Prepaid expenses and other current assets	**(28)**	(25)	(249)
Accounts payable	**(174)**	(105)	286
Income taxes payable	**389**	(434)	(365)
Accrued compensation	**307**	(256)	576
Deferred revenue	**678**	1,629	662
Other accrued liabilities	**(222)**	251	369
Restructuring liabilities	**(64)**	386	–
Net cash provided by operating activities	**6,587**	6,392	6,141
Cash flows from investing activities:			
Purchases of short-term investments	**(5,473)**	(4,594)	(2,473)
Proceeds from sales and maturities of short-term investments	**5,868**	4,370	2,481
Purchases of investments	**(15,760)**	(18,306)	(14,778)
Proceeds from sales and maturities of investments	**15,317**	15,579	13,240
Purchases of restricted investments	**(291)**	(941)	(458)
Proceeds from sales and maturities of restricted investments	**1,471**	1,082	206
Acquisition of property and equipment	**(2,641)**	(2,271)	(1,086)
Purchases of technology licenses	**–**	(4)	(444)
Acquisition of businesses, net of cash and cash equivalents	**16**	(13)	24
Change in lease receivables, net	**380**	457	(535)
Purchases of investments in privately held companies	**(58)**	(1,161)	(130)
Lease deposits	**320**	(320)	–
Purchase of minority interest of Cisco Systems, K.K. (Japan)	**(115)**	(365)	–
Other	**159**	(516)	(424)
Net cash used in investing activities	**(807)**	(7,003)	(4,377)
Cash flows from financing activities:			
Issuance of common stock	**655**	1,262	1,564
Repurchase of common stock	**(1,854)**	–	–
Other	**30**	(12)	(7)
Net cash (used in) provided by financing activities	**(1,169)**	1,250	1,557
Net increase in cash and cash equivalents	**4,611**	639	3,321
Cash and cash equivalents, beginning of fiscal year	**4,873**	4,234	913
Cash and cash equivalents, end of fiscal year	**$ 9,484**	$ 4,873	$ 4,234

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 31, 1999	6,821	$ 5,731	$ 5,782	$ 298	$11,811
Net income	–	–	2,668	–	2,668
Change in net unrealized gains and losses 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 and losses 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
Net income	–	–	1,893	–	1,893
Change in net unrealized gains and losses on investments	–	–	–	224	224
Other	–	–	–	24	24
Comprehensive income	–	–	–	–	2,141
Issuance of common stock	76	655	–	–	655
Repurchase of common stock	(124)	(350)	(1,504)	–	(1,854)
Tax benefits from employee stock option plans	–	61	–	–	61
Purchase acquisitions	27	346	–	–	346
Amortization of deferred stock-based compensation	–	187	–	–	187
BALANCE AT JULY 27, 2002	**7,303**	**$20,950**	**$ 7,733**	**$ (27)**	**$28,656**

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Description of Business

Cisco Systems, Inc. (the "Company" or "Cisco") manufactures and sells networking and communications products and provides services associated with that equipment and its use. Its products are installed at corporations, public institutions, and telecommunication companies, and are also found in small and medium-sized commercial enterprises. Cisco provides a broad line of products for transporting data, voice, and video within buildings, across campuses, or around the world.

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 2002, 2001, and 2000 were 52-week fiscal years.

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

Cash and 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. Cash and cash equivalents are maintained with several financial institutions.

Investments The Company's investments are primarily comprised of U.S. government notes and bonds; corporate notes and bonds; and publicly traded corporate equity securities. Investments with original or remaining maturities of greater than three months and less than one year are considered to be short-term. Investments are custodied with a major financial institution. The specific identification method is used to determine the cost basis of notes and bonds disposed of. The weighted-average method is used to determine the cost basis of corporate equity securities disposed of. At July 27, 2002 and July 28, 2001, substantially all of the Company's investments were classified as available for sale. These investments are recorded on the Consolidated Balance Sheets at fair value. 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 recognizes an impairment charge when the decline in the fair value of its investments below the cost basis is judged to be other-than-temporary.

The Company also has minority investments in privately held companies. These investments are included in other assets on the Company's Consolidated Balance Sheets and are generally carried at cost. The Company monitors these investments for impairment and makes appropriate reductions in carrying values.

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 determined primarily by future demand forecasts.

Restricted Investments Restricted investments consisted of U.S. government notes and bonds with maturities of more than one year. These investments were carried at fair value and were restricted as collateral for specified obligations under certain lease agreements. In fiscal 2002, the Company elected to purchase all of the land and buildings, as well as sites under construction, under these lease agreements. As a result, all restricted investments were liquidated and the Company no longer has any sites under such lease agreements.

Fair Value of Financial Instruments Fair value of certain of the Company's financial instruments, including cash and cash equivalents, accrued compensation, and other accrued liabilities, approximate cost because of their short maturities. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

Concentrations Cash and cash equivalents are maintained with several financial institutions. 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 contract manufacturers and suppliers to provide manufacturing services for its products. The inability of any contract manufacturer or supplier 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, the fee is fixed or determinable, and collectibility is probable. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Service revenue is generally deferred and, in most cases, recognized ratably over the service period obligations, which are typically one to three years. Cash payments received in advance of product or service revenue are recorded as deferred revenue.

Notes to Consolidated Financial Statements

The Company makes certain sales to two-tier distribution channels. These distributors are given privileges to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. The Company recognizes revenue to two-tier distributors based on information provided by its 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 historical experience.

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 usually 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 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. Software development costs for internal use required to be capitalized pursuant to Statement of Position No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” have also not been material to date.

Depreciation and Amortization Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are 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 30 to 36 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 are computed using the shorter of the remaining lease terms or five years.

Goodwill and Purchased Intangible Assets 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 on an annual basis and between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous accounting standards required. Furthermore, SFAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite.

SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, the Company elected to early-adopt the accounting standard effective the beginning of fiscal 2002. In accordance with SFAS 142, the Company ceased amortizing goodwill totaling $3.2 billion as of the beginning of fiscal 2002, including $55 million of acquired workforce intangible previously classified as purchased intangible assets, net of related deferred tax liabilities. Based on the impairment tests performed, there was no impairment of goodwill in fiscal 2002. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally two to five years.

The following table presents the impact of SFAS 142 on net income (loss) and net income (loss) per share had the accounting standard been in effect for fiscal 2001 and 2000 (in millions, except per-share amounts):

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Net income (loss)—as reported	**$1,893**	$(1,014)	$2,668
Adjustments:			
Amortization of goodwill	–	690	154
Amortization of acquired workforce intangible previously classified as purchased intangible assets	–	13	5
Income tax effect	–	(102)	(21)
Net adjustments	–	601	138
Net income (loss)—adjusted	**$1,893**	$ (413)	$2,806
Basic net income (loss) per share—as reported	**$ 0.26**	$ (0.14)	$ 0.39
Basic net income (loss) per share—adjusted	**$ 0.26**	$ (0.06)	$ 0.41
Diluted net income (loss) per share—as reported	**$ 0.25**	$ (0.14)	$ 0.36

Diluted net income (loss) per share—adjusted	**$ 0.25**	$ (0.06)	$ 0.38

Income Taxes Income tax expense is based on pre-tax 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 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 outstanding, as their effect is antidilutive. Dilutive potential common shares consist of employee stock options and restricted common stock.

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 directly recorded as 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 other income (loss).

Derivatives The Company recognizes derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures 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.

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 objective for holding derivatives is to minimize 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 and designates these 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 certain foreign currency receivables, investments, and payables. The foreign exchange forward contracts are not designated as accounting hedges and all changes in fair value are recognized in earnings in the period of change.

The fair value of derivative instruments as of July 27, 2002 and changes in fair value during fiscal 2002 were not material. During fiscal 2002, 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 27, 2002, the Company owned all issued and outstanding common stock amounting to 92.4% 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 and sales returns, inventory allowances, warranty costs, investment impairments, goodwill impairments, contingencies, restructuring costs and other special charges, and taxes. Actual results could differ materially 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 October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 establishes a single accounting model, based on the framework established in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), for long-lived assets to be disposed of by sale, and resolves implementation issues related to SFAS 121. The Company is required to adopt SFAS 144 no later than the first quarter of fiscal 2003. The Company does not expect the adoption of SFAS 144 to have a material impact on its operating results or financial position.

Notes to Consolidated Financial Statements

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS 146”). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material impact on its operating results or financial position.

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 year ended July 27, 2002, the Company completed a number of purchase acquisitions which are summarized as follows (in millions):

Acquired Company	Consideration Including Assumed Liabilities	In-Process R&D Expense	Goodwill	Purchased Intangible Assets
Allegro Systems, Inc.	**$164**	**$ 28**	**$ 19**	**$105**
AuroraNetics, Inc.	**51**	**9**	**16**	**14**
Hammerhead Networks, Inc.	**175**	**27**	**105**	**–**
Navarro Networks, Inc.	**85**	**1**	**73**	**–**
Total	**$475**	**$ 65**	**$213**	**$119**

The Company acquired Allegro Systems, Inc. to enhance its existing virtual private network (VPN) and security solutions. The Company acquired AuroraNetics, Inc. to enhance its development of high-end routing technologies in the metropolitan network environment. The Company acquired Hammerhead Networks, Inc. to augment its Internet Protocol aggregation portfolio consisting of cable, broadband, and leased-line products. The Company acquired Navarro Networks, Inc. to complement its continued development of Ethernet switching solutions.

In connection with the acquisition of AuroraNetics, Inc., the Company may be required to pay certain additional amounts of up to $100 million, payable in common stock and to be accounted for under the purchase method, contingent upon the company achieving certain agreed-upon technology and other milestones.

A summary of the purchase transactions completed in fiscal 2001 and 2000 is outlined as follows (in millions):

Acquired Company	Consideration Including Assumed Liabilities	In-Process R&D Expense	Goodwill	Purchased Intangible Assets
FISCAL 2001				
IPmobile, Inc.	$ 422	$ 181	$ 144	$ 13
NuSpeed, Inc.	463	164	212	2
IPCell Technologies, Inc.	213	75	73	29
PixStream Incorporated	395	67	170	145
Active Voice Corporation	266	37	151	99
Radiata, Inc.	211	29	71	99
Other	903	302	150	237
Total	$2,873	$ 855	$ 971	$624
FISCAL 2000				
Monterey Networks, Inc.	$ 517	$ 354	$ 102	$ 52
The optical systems business of Pirelli S.p.A.	2,018	245	1,426	291
Aironet Wireless Communications, Inc.	835	243	400	189
JetCell, Inc.	203	88	67	70
Qeyton Systems	887	260	540	27

Other	509	183	245	90
Total	$4,969	$1,373	$2,780	$719

The purchase price was also allocated to tangible assets and deferred stock-based compensation. At July 27, 2002 and July 28, 2001, the total unamortized deferred stock-based compensation balance was $182 million and $293 million, respectively, and was reflected as a debit to additional paid-in capital in the Consolidated Statements of Shareholders' Equity.

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. Total in-process R&D expense in fiscal 2002, 2001, and 2000 was $65 million, $855 million, and $1.4 billion, respectively. The in-process R&D expense that was attributable to common stock consideration for the same periods was $53 million, $739 million, and $1.3 billion, respectively.

The following table presents details of the purchased intangible assets acquired during fiscal 2002 (in millions, except number of years):

	ALLEGRO		AURORANETICS	
	Estimated Useful Life (in Years)	Amount	Estimated Useful Life (in Years)	Amount
Technology	4.1	$ 98	–	$ –
Patents	–	–	5.0	3
Other	2.0	7	2.0	11
Total		$105		$14

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 following tables present details of the Company's total purchased intangible assets (in millions):

July 27, 2002	Gross	Accumulated Amortization	Net
Technology	**$ 893**	**$(429)**	**$ 464**
Technology licenses	**523**	**(323)**	**200**
Patents	**128**	**(54)**	**74**
Other	**135**	**(76)**	**59**
Total	**$1,679**	**$(882)**	**$ 797**

July 28, 2001			
Technology	$1,053	$(240)	$ 813
Technology licenses	523	(191)	332
Patents	232	(44)	188
Acquired workforce	91	(20)	71
Other	117	(51)	66
Total	$2,016	$(546)	$1,470

The following table presents details of the amortization expense of purchased intangible assets (excluding the impairment of purchased intangible assets included in restructuring costs and other special charges for fiscal 2001) as reported in the Consolidated Statements of Operations (in millions):

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Reported as:			
Cost of sales	**$ 22**	$ 22	$ 25
Operating expenses	**699**	365	137
Total	**$ 721**	$ 387	$ 162

Notes to Consolidated Financial Statements

The estimated future amortization expense of purchased intangible assets as of July 27, 2002 was as follows (in millions):

Fiscal Year	Amount
2003	$ 359
2004	234
2005	154
2006	49
2007	1
Total	$ 797

The following table presents the changes in goodwill allocated to the Company's reportable segments during fiscal 2002 (in millions):

	Balance at July 28, 2001	Acquired	Adjustments	**Balance at July 27, 2002**
Americas	$2,177	$120	$38	**$2,335**
EMEA	531	50	12	**593**
Asia Pacific	110	26	4	**140**
Japan	371	125	1	**497**
Total	$3,189	$321	$55	**$3,565**

In fiscal 2002, the Company purchased a portion of the minority interest of Cisco Systems, K.K. (Japan). As a result, the Company increased its ownership to 92.4% of the voting rights of Cisco Systems, K.K. (Japan) and recorded goodwill of $108 million. The adjustments during fiscal 2002 were due to the reclassification of acquired workforce intangible and the related deferred tax liabilities to goodwill as a result of the adoption of SFAS 142.

Pooling of Interests Combinations

There were no transactions accounted for as 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 pooling 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 stock options were assumed for a fair value of $15.2 billion.

In fiscal 2000, the Company also acquired Cocom A/S; V-Bits, Inc.; Growth Networks, Inc.; Altiga Networks, Inc.; and Compatible Systems Corporation. As a result of these transactions, 20 million shares of common stock were exchanged and stock options were assumed for a fair value of $1.1 billion. These transactions were accounted for as pooling 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 were not 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 a focus on profit contribution, high-growth areas of its business, reduction of expenses, and improved efficiency. This restructuring program included 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 in the third quarter of fiscal 2001, the Company recorded restructuring costs and other special charges of $1.2 billion and an additional excess inventory charge of $2.2 billion. The following discussion provides detailed information relating to the status of the restructuring liabilities and additional excess inventory reserve as of July 27, 2002.

Worldwide Workforce Reduction, Consolidation of Excess Facilities, and Other Special Charges

The following table summarizes the activity related to the restructuring liabilities (in millions):

	Workforce Reduction	Consolidation of Excess Facilities and Other Charges (2)	Impairment of Goodwill and Purchased Intangible Assets	Total
Initial charge in third quarter of fiscal 2001	$ 397	$ 484	$ 289	$1,170
Noncash charges	(71)	(141)	(289)	(501)
Cash payments	(265)	(18)	–	(283)
Balance at July 28, 2001	61	325	–	386
Adjustments(1)	(35)	128	–	93
Cash payments	(26)	(131)	–	(157)
Balance at July 27, 2002	**$ –**	**$ 322**	**$ –**	**$ 322**

Note 1: Due to changes in previous estimates, the Company reclassified $35 million of restructuring liabilities related to the workforce reduction charges to consolidation of excess facilities and other charges. The initial estimated workforce reduction was approximately 6,000 regular employees. Approximately 5,400 regular employees have been terminated and the liability has been paid. In addition, during the third quarter of fiscal 2002, the Company increased the restructuring liabilities related to the consolidation of excess facilities and other charges by $93 million due to changes in real estate market conditions. The increase in the restructuring liabilities related to the consolidation of excess facilities and other charges was recorded as research and development ($39 million), sales and marketing ($42 million), general and administrative ($8 million) expenses and cost of sales ($4 million) in the Consolidated Statements of Operations.

Note 2: Amounts related to the net lease expense due to the consolidation of excess facilities will be paid over the respective lease terms through fiscal 2010.

Provision for Inventory

The following is a summary of the change in the additional excess inventory reserve (in millions):

	Excess Inventory Reserve	Excess Inventory Benefit
Initial charge in the third quarter of fiscal 2001	$ 2,249	
Usage:		
Inventory scrapped	(105)	$ –
Sale of inventory	(89)	9
Inventory utilized	(49)	49
Settlement of purchase commitments	(329)	129
	(572)	$187
Reserve balance as of July 28, 2001	1,677	
Usage:		
Inventory scrapped	(975)	$ –
Sale of inventory	(64)	14
Inventory utilized	(408)	408
Settlement of purchase commitments	(173)	103
	(1,620)	$525
Reserve balance as of July 27, 2002	**$ 57**	

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 27, 2002	July 28, 2001
Inventories, net:		
Raw materials	**$ 38**	$ 662
Work in process	**297**	260
Finished goods	**490**	669
Demonstration systems	**55**	93
Total	**$ 880**	$ 1,684
Property and equipment, net:		
Land, buildings, and leasehold improvements	**$ 3,352**	$ 1,300
Computer equipment and related software	**1,021**	984
Production, engineering, and other equipment	**2,061**	1,828
Operating lease assets	**505**	551
Furniture and fixtures	**366**	366
	7,305	5,029
Less, accumulated depreciation and amortization	**(3,203)**	(2,438)
Total	**$ 4,102**	$ 2,591
Other assets:		
Deferred tax assets	**$ 1,663**	$ 1,314
Investments in privately held companies	**477**	775
Income tax receivable	**392**	443
Lease deposits	**–**	320
Structured loans, net	**61**	84
Other	**466**	354
Total	**$ 3,059**	$ 3,290
Deferred revenue:		
Service	**$ 2,207**	$ 2,027
Product	**1,685**	1,187
Total	**3,892**	3,214
Less, current portion	**(3,143)**	(2,470)
Non-current deferred revenue	**$ 749**	$ 744

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

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Utilization of inventory financing to purchase inventory	**$ –**	$ 765	$ –

6. Lease Receivables, Net

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 27, 2002	July 28, 2001
Gross lease receivables	**$1,214**	$1,554
Unearned income and other reserves	**(936)**	(896)
Total	**278**	658
Less, current portion	**(239)**	(405)
Non-current lease receivables, net	**$ 39**	$ 253

Contractual maturities of the gross lease receivables at July 27, 2002 were $613 million in fiscal 2003, $348 million in fiscal 2004, $234 million in fiscal 2005, and $19 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 millions):

July 27, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes and bonds	**$ 4,346**	**$122**	**$ (1)**	**$ 4,467**
Corporate notes and bonds	**6,819**	**127**	**(8)**	**6,938**
Corporate equity securities	**851**	**71**	**(355)**	**567**
Total	**$12,016**	**$320**	**$(364)**	**$11,972**
Reported as:				
Short-term investments				**$ 3,172**
Investments				**8,800**
Total				**$11,972**

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

The following table summarizes the maturities of the U.S. government and corporate notes and bonds at July 27, 2002 (in millions):

	Amortized Cost	Fair Value
Less than one year	$ 3,160	$ 3,172
Due in 1-2 years	1,608	1,636
Due in 2-5 years	3,439	3,553
Due after 5 years	2,958	3,044
Total	$11,165	$11,405

8. Commitments and Contingencies

Leases

The Company leases office space in U.S. locations, as well as locations in the Americas; Europe, the Middle East, and Africa ("EMEA"); Asia Pacific; and Japan. Rent expense totaled $265 million, $381 million, and $229 million in fiscal 2002, 2001, and 2000, respectively. Future annual minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of July 27, 2002 were as follows (in millions):

Fiscal Year	Amount
2003	$ 272
2004	260
2005	221
2006	170
2007	135
Thereafter	729
Total	$1,787

The Company had entered into several agreements to lease sites in San Jose, California, where its headquarters is located, and certain other facilities, both completed and under construction, in the surrounding areas of San Jose, California; Boxborough, Massachusetts; Salem, New Hampshire; Richardson, Texas; and Research Triangle Park, North Carolina.

Under these agreements, the Company could, at its option, purchase the land or both land and buildings. The Company could purchase the buildings at approximately the amount expended by the lessors to construct the buildings. As part of the lease agreements, the Company had restricted certain of its investment securities as collateral for specified obligations of the lessors.

In fiscal 2002, the Company elected to purchase all of the land and buildings, as well as sites under construction, under these lease agreements. The total purchase price was approximately $1.9 billion and was primarily funded by the liquidation of restricted investments and lease deposits. As a result, the Company no longer has any sites under such lease agreements.

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 certain foreign currency receivables, investments, and payables. The gains and losses on the foreign exchange forward contracts offset the transaction gains and losses on certain 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 other income (loss), 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. Additionally, the Company has entered into foreign exchange forward contracts related to long-term customer financings with maturities of up to two years. 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 currency options. These transactions are designated as cash flow hedges. These currency option contracts 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 27, 2002 are summarized as follows (in millions):

	Notional Amount	Fair Value
Forward contracts:		
Purchased	$561	$ 2
Sold	$712	$ (4)
Option contracts:		
Purchased	$752	$24
Sold	$675	$ (3)

The Company's foreign exchange forward and option contracts 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 counterparties.

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 were filed in the United States District Court for the Northern District of California against Cisco and certain of its officers and directors. The lawsuits have been consolidated, and the consolidated action is purportedly brought on behalf of those who purchased the Company's publicly traded securities between August 10, 1999 and February 6, 2001. Plaintiffs allege that defendants have made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. Cisco 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 were filed in the Superior Court of California, County of Santa Clara and in the Superior Court of California, County of San Mateo. There is a procedure in place for the coordination of such actions. Two purported derivative suits have also been filed in the United States District Court for the Northern District of California, and those federal court actions have been consolidated. 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.

Certain Investments in Privately Held Companies

Cisco has entered into investment agreements with two privately held companies, AYR Networks, Inc. ("AYR") and Andiamo Systems, Inc. ("Andiamo").

On July 25, 2002, Cisco announced a definitive agreement to acquire the remaining interests of AYR for a purchase price of approximately $113 million payable in common stock. This acquisition will be accounted for under the purchase method and is expected to close in the first quarter of fiscal 2003.

In the case of Andiamo, as of July 27, 2002, Cisco had an option to acquire the remaining interests not owned by Cisco for consideration consisting of shares of its common stock. In addition, Andiamo had a put option enabling them to require Cisco to acquire the remaining interests not owned by Cisco, subject to the fulfillment of various conditions, including the achievement of specified technology and other milestones. As of July 27, 2002, Cisco funded $63 million of its $84 million investment commitment to Andiamo. Upon full funding of the commitment and based on certain terms and conditions, Cisco will hold a promissory note that is convertible into approximately 44% of the equity of Andiamo. Cisco is also committed to provide additional funding to Andiamo through the closing of the acquisition of approximately $100 million. Since making its initial investment in the third quarter of fiscal 2001, Cisco has expensed the entire amount funded as research and development costs, as if such expenses constituted the development costs of the Company.

On August 19, 2002, the Company entered into a definitive agreement to acquire Andiamo, which represents the Company's exercise of its rights (see Note 14 to the Consolidated Financial Statements).

Notes to Consolidated Financial Statements

Purchase Commitments with Contract Manufacturers and Suppliers

The Company uses several contract manufacturers and suppliers to provide manufacturing services for 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 contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by the Company. As of July 27, 2002, the Company has purchase commitments for inventory of approximately $800 million.

Other Commitments

In fiscal 2001, the Company entered into an agreement to invest approximately $1.0 billion in venture funds managed by SOFTBANK Corp. and its affiliates ("SOFTBANK"). These venture funds are required to be funded upon demand by SOFTBANK. As of July 27, 2002, the Company has funded $100 million of this investment commitment.

The Company provides structured 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 27, 2002, the outstanding loan commitments were approximately $948 million, subject to the customer achieving certain financial covenants, of which approximately $209 million was eligible for draw down. These loan commitments may be funded over a two- to three-year period provided that these customers achieve specific business milestones and financial covenants.

The Company has entered into several agreements to purchase or construct real estate, subject to the satisfaction of certain conditions. As of July 27, 2002, the total amount of commitments, if certain conditions are met, was approximately $491 million.

At July 27, 2002, the Company has a commitment of approximately $190 million to purchase the remaining portion of the minority interest of Cisco Systems, K.K. (Japan).

The Company also has certain other funding commitments of approximately $152 million at July 27, 2002 related to its privately held investments.

9. Shareholders' Equity

Stock Repurchase Program

In September 2001, the Board of Directors authorized a stock repurchase program to acquire outstanding common stock in the open market or negotiated transactions. Under the program, up to $3 billion of Cisco common stock could be reacquired over two years. In August 2002, the Board of Directors increased Cisco's stock repurchase program by $5 billion to a total of $8 billion of Cisco common stock available for repurchase through September 12, 2003.

During fiscal 2002, the Company repurchased and retired approximately 124 million shares of Cisco common stock for an aggregate purchase price of approximately $1.9 billion. Including the amount approved by the Board of Directors in August 2002 as discussed above, the remaining authorized amount for stock repurchase is $6.1 billion.

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 27, 2002**	July 28, 2001	July 29, 2000
Net income (loss)	**$1,893**	$(1,014)	$ 2,668
Other comprehensive income (loss):			
Change in net unrealized gains and losses on investments	**215**	(5,765)	5,002
Tax effect	**9**	1,953	(1,762)
Change in net unrealized gains and losses on investments, net of tax	**224**	(3,812)	3,240
Other	**24**	7	(8)
Total	**$2,141**	$(4,819)	$ 5,900

The change in net unrealized gains and losses on investments during fiscal 2002 was primarily related to the recognition of a charge of $858 million, pre-tax, in the first quarter attributable to the impairment of certain publicly traded equity securities, partially offset by a net decrease of approximately $500 million in the fair value of investments. The impairment charge was related to the decline in the fair value of the Company's publicly traded equity investments below the cost basis that was judged to be other-than-temporary.

10. 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 2002, 2001, and 2000, 22 million, 13 million, and 7 million shares, respectively, were issued under the Purchase Plan. At July 27, 2002, 88 million shares were available for issuance under the Purchase Plan.

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 2.5 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 expired in December 2001. 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. Certain other 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 underlying stock 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 three million shares are subject to outstanding options, and one million shares has been issued in fiscal 2002. 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 2002, a total of approximately two million shares of the Company's common stock has been reserved for issuance under the assumed plans and the related options are included in the following table.

Notes to Consolidated Financial Statements

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

	Options Available for Grant	OPTIONS OUTSTANDING Number Outstanding	OPTIONS OUTSTANDING Weighted-Average Exercise Price per Share
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
Granted and assumed	**(282)**	**282**	**17.72**
Exercised	**–**	**(54)**	**6.99**
Canceled	**82**	**(82)**	**36.94**
Additional shares reserved	**342**	**–**	**–**
BALANCE AT JULY 27, 2002	**664**	**1,206**	**$27.17**

The following table summarizes information concerning outstanding and exercisable options at July 27, 2002 (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 – 12.27	308	3.90	$ 7.32	299	$ 7.43
12.28 – 18.57	297	7.82	16.49	66	15.91
18.58 – 50.38	382	6.91	34.09	163	34.09
50.39 – 68.98	213	6.57	57.07	103	56.90
68.99 – 72.56	6	6.66	72.56	3	72.56
Total	1,206	6.30	$27.17	634	$23.51

At July 28, 2001 and July 29, 2000, 505 million and 418 million outstanding options, respectively, were exercisable. The weighted-average exercise prices for exercisable options were $17.62 and $9.22 at July 28, 2001 and July 29, 2000, respectively.

The Company follows APB Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), in accounting for its employee stock options. Under APB 25, because the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company’s Consolidated Statements of Operations.

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.

Pro forma information under SFAS 123 is as follows (in millions, except per-share amounts):

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Net income (loss)—as reported	**$ 1,893**	$(1,014)	$ 2,668
Stock option compensation expense, net of tax	**(1,520)**	(1,691)	(1,119)
Net income (loss)—pro forma	**$ 373**	$(2,705)	$ 1,549
Basic net income (loss) per share—as reported	**$ 0.26**	$ (0.14)	$ 0.39
Diluted net income (loss) per share—as reported	**$ 0.25**	$ (0.14)	$ 0.36
Basic net income (loss) per share—pro forma	**$ 0.05**	$ (0.38)	$ 0.22
Diluted net income (loss) per share—pro forma	**$ 0.05**	$ (0.38)	$ 0.21

The 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 27, 2002	July 28, 2001	July 29, 2000	**July 27, 2002**	July 28, 2001	July 29, 2000
Expected dividend	**0.0%**	0.0%	0.0%	**0.0%**	0.0%	0.0%
Risk-free interest rate	**4.7%**	5.4%	6.4%	**3.1%**	5.3%	5.3%
Expected volatility	**47.5%**	34.8%	33.9%	**58.1%**	35.0%	43.3%
Expected life (in years)	**5.5**	3.6	3.1	**0.5**	0.5	0.5

The Black-Scholes option pricing model was developed for use in estimating the 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 data for expected volatility and expected life of its stock options based upon historical and other economic data 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 estimate, in management's opinion, the existing models do not provide a reliable single measure of the fair value of the Company's options. Under the Black-Scholes option pricing model, the weighted-average estimated values of employee stock options granted during fiscal 2002, 2001, and 2000 were $8.60, $13.31, and $19.44 per share, respectively.

Basic and diluted shares outstanding for the year ended July 27, 2002 were 7.3 billion and 7.4 billion shares, respectively. Diluted shares outstanding include the dilutive impact of in-the-money options which is calculated based on the average share price for each fiscal year using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all in-the-money options are assumed to be used to repurchase shares. In fiscal 2002, the dilutive impact of in-the-money employee stock options was approximately 130 million shares or approximately 2% of the average shares outstanding based on Cisco's average share price of $16.68. The Cisco share price at the end of fiscal 2002 was $11.82; the dilutive impact of in-the-money stock options would be 80 million shares or approximately 1% of the average shares outstanding in fiscal 2002.

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.

Through December 31, 2001, employees could contribute from 1% to 15% of their annual compensation to the Plan. Effective January 1, 2002, the employee contribution limit was increased to 25% of their annual compensation. Employee contributions are 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. The Company's matching contributions to the Plan totaled $35 million, $45 million, and $34 million in fiscal 2002, 2001, and 2000, respectively. Effective January 1, 2003, the new matching structure will be 50% of the first 6% of eligible earnings that are contributed by employees. Therefore, the maximum matching contribution that the Company may allocate to each participant's account will not exceed $6,000 for the 2003 calendar year due to the $200,000 annual limit on eligible earnings imposed by the Internal Revenue Service.

In addition, the Plan provides for discretionary profit sharing 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. There were no discretionary profit sharing contributions made in fiscal 2002, 2001, or 2000. In fiscal 2002, the Plan provided for a one-time discretionary matching contribution of $11 million based on $500 per eligible employee.

11. Income Taxes

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

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Federal:			
Current	**$ 929**	$ 581	$1,843
Deferred	**(480)**	(697)	(652)
	449	(116)	1,191
State:			
Current	**117**	157	282
Deferred	**(68)**	(199)	(118)
	49	(42)	164
Foreign:			
Current	**344**	326	332
Deferred	**(25)**	(28)	(12)
	319	298	320
Total	**$ 817**	$ 140	$1,675

The Company paid income taxes of $909 million, $48 million, and $327 million in fiscal 2002, 2001, and 2000, respectively.

Income (loss) before provision for income taxes consisted of the following (in millions):

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
United States	**$1,550**	$(1,727)	$2,544
International	**1,160**	853	1,799
Total	**$2,710**	$ (874)	$4,343

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

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Federal statutory rate	**35.0%**	(35.0)%	35.0%
Effect of:			
State taxes, net of federal tax benefit	**1.8**	(2.4)	1.9
Foreign sales corporation	**(1.5)**	(1.8)	(1.9)
Foreign income at other than U.S. rates	**(4.9)**	(1.7)	(1.6)
Nondeductible in-process R&D	**0.9**	30.3	7.6
Nondeductible goodwill	**–**	20.9	0.5
Nondeductible deferred stock-based compensation	**1.9**	8.0	–
Tax-exempt interest	**–**	(1.0)	(1.8)
Tax credits	**(3.4)**	(2.5)	(1.6)
Other, net	**0.3**	1.2	0.5

Total	**30.1%**	16.0%	38.6%

U.S. income taxes and foreign withholding taxes were not provided for on a cumulative total of $1.2 billion 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) are as follows (in millions):

	July 27, 2002	July 28, 2001
ASSETS		
Allowance for doubtful accounts and returns	**$ 247**	$ 466
Lease reserves	**281**	325
Loan reserves	**249**	284
Inventory allowances and capitalization	**340**	706
Investment reserves	**476**	274
In-process R&D, goodwill, and purchased intangible assets	**436**	400
Deferred revenue	**968**	478
Credits and net operating loss carryforwards	**391**	414
Other	**497**	230
Total deferred tax assets	**3,885**	3,577
LIABILITIES		
Purchased intangible assets	**(192)**	(266)
Unrealized gains on investments	–	(1)
Other	–	(187)
Total deferred tax liabilities	**(192)**	(454)
Total	$**3,693**	$3,123

The following table presents the breakdown between current and non-current deferred tax assets (in millions):

	July 27, 2002	July 28, 2001
Current	**$2,030**	$1,809
Non-current	**1,663**	1,314
Total	**$3,693**	$3,123

The non-current portion of the deferred tax assets 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 had removed the valuation allowance because it believed it was more likely than not that all deferred tax assets would be realized in the foreseeable future and was reflected as a credit to shareholders' equity.

As of July 27, 2002, the Company's federal and state net operating loss carryforwards for income tax purposes were $83 million and $14 million, respectively. If not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2010 and the state net operating loss carryforwards will begin to expire in fiscal 2003. As of July 27, 2002, the Company's federal and state tax credit carryforwards for income tax purposes were $255 million and $164 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in fiscal 2005 and state tax credit carryforwards will begin to expire in fiscal 2003.

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 $61 million, $1.8 billion, and $3.1 billion in fiscal 2002, 2001, and 2000, respectively. Benefits reducing taxes payable amounted to $61 million, $1.4 billion, and $2.5 billion in fiscal 2002, 2001, and 2000, respectively. Benefits increasing gross deferred tax assets amounted to $358 million and $582 million in fiscal 2001 and 2000, respectively.

The Company's federal income tax returns for fiscal years ended July 31, 1999 and July 25, 1998 are under examination and the Internal Revenue Service has proposed certain adjustments. Management believes that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations.

Notes to Consolidated Financial Statements

12. Segment Information and Major Customers

The Company's operations involve the design, development, manufacturing, marketing, and technical support of networking and communications products and services. Cisco products include routers, switches, access, and other networking equipment. These products, integrated by the Cisco IOS® Software, link geographically dispersed LANs and WANs into 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. Based on established criteria, the Company has four reportable segments: the Americas; EMEA; Asia Pacific; and Japan.

Summarized financial information by theater for fiscal 2002, 2001, and 2000, as taken from the internal management system previously discussed, is as follows (in millions):

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Net sales:			
Americas	**$11,083**	$12,740	$12,034
EMEA	**4,837**	5,903	4,444
Asia Pacific	**1,673**	2,193	1,583
Japan	**1,322**	1,457	867
Total	**$18,915**	$22,293	$18,928
Gross margin:			
Americas	**$ 8,422**	$ 9,118	$ 8,846
EMEA	**3,856**	4,413	3,374
Asia Pacific	**1,368**	1,508	1,137
Japan	**1,060**	1,134	694
Standard margin	**14,706**	16,173	14,051
Production overhead	**(651)**	(615)	(455)
Manufacturing variances and other related costs	**(2,042)**	(4,486)	(1,414)
Total	**$12,013**	$11,072	$12,182

The Americas theater included non-U.S. net sales of $886 million, $1.0 billion, and $848 million for fiscal 2002, 2001, and 2000, respectively.

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

	July 27, 2002	July 28, 2001	July 29, 2000
Property and equipment, net:			
United States	**$3,555**	$1,966	$1,242
International	**547**	625	184
Total	**$4,102**	$2,591	$1,426

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

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Net sales:			
Routers	**$ 5,607**	$ 7,179	$ 6,801
Switches	**7,560**	8,979	6,791
Access	**980**	1,855	2,205
Other	**1,522**	1,546	1,205
Product	**15,669**	19,559	17,002
Service	**3,246**	2,734	1,926
Total	**$18,915**	$22,293	$18,928

The majority of the Company's assets at July 27, 2002 and July 28, 2001 were attributable to its U.S. operations. In fiscal 2002, 2001, and 2000, no single customer accounted for 10% or more of the Company's net sales.

13. Net Income (Loss) per Share

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

Years Ended	**July 27, 2002**	July 28, 2001	July 29, 2000
Net income (loss)	**$1,893**	$(1,014)	$2,668
Weighted-average shares—basic	**7,301**	7,196	6,917
Effect of dilutive potential common shares	**146**	–	521
Weighted-average shares—diluted	**7,447**	7,196	7,438
Net income (loss) per share—basic	**$ 0.26**	$ (0.14)	$ 0.39
Net income (loss) per share—diluted	**$ 0.25**	$ (0.14)	$ 0.36

Dilutive potential common shares consist of employee stock options and restricted common stock. The weighted-average dilutive potential common shares, which were antidilutive for fiscal 2001, amounted to 348 million shares. Employee stock options to purchase approximately 712 million shares in fiscal 2002 and 426 million shares in fiscal 2001 were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been antidilutive. The antidilutive employee stock options were not material in fiscal 2000.

14. Subsequent Event

On August 19, 2002, Cisco entered into a definitive agreement to acquire privately held Andiamo Systems, Inc. ("Andiamo"). As disclosed in Note 8, Cisco entered into agreements with Andiamo under which Cisco was granted the right to acquire Andiamo. This definitive agreement represented Cisco's exercise of this right. The acquisition of Andiamo is expected to close in the third quarter of fiscal year 2004 (February to April 2004), but no later than July 31, 2004.

Under the terms of the agreement, common stock of Cisco will be exchanged for all outstanding shares and options of Andiamo not owned by Cisco at the closing of the acquisition. The amount of the purchase price for the remaining equity interests in Andiamo not then held by Cisco is not determinable at this time, but will be based primarily upon a valuation of Andiamo to be determined by applying a multiple to the actual, annualized revenue generated from sales by Cisco of products attributable to Andiamo during a three-month period shortly preceding the closing. Under its agreements with Andiamo, Cisco is the exclusive manufacturer and distributor of all Andiamo products. The multiple will be equal to Cisco's average market capitalization during a specified period divided by Cisco's annualized revenue for a three-month period prior to closing, subject to adjustment as follows: (i) if the multiple so calculated is less than 10, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 10 and the multiple so calculated; (ii) if the multiple so calculated is greater than 15, then the multiple to be used for purposes of determining the transaction price shall be the midpoint between 15 and the multiple so calculated. There is no minimum purchase price, and the maximum purchase price is limited to approximately $2.5 billion in shares of Cisco common stock valued at the time of closing.

The acquisition has received the required approvals from both companies and is subject to various closing conditions and approvals, including stockholder approval by Andiamo. In connection with this acquisition, Cisco filed a Current Report on Form 8-K.

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 27, 2002 and July 28, 2001, and the results of their operations and their cash flows for each of the three years in the period ended July 27, 2002 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.

As discussed in Note 2 to the consolidated financial statements, effective July 29, 2001, the Company changed its method of accounting for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

PricewaterhouseCoopers LLP

San Jose, California
August 6, 2002, except for Note 14, as to which the date is August 19, 2002

Supplementary Financial Data (Unaudited)

(In millions, except per-share amounts)

Quarters Ended	**July 27, 2002**	**April 27, 2002**	**Jan. 26, 2002**	**Oct. 27 , 2001**	July 28, 2001	April 28, 2001	Jan. 27, 2001	Oct. 28, 2000
Net sales	**$ 4,829**	**$ 4,822**	**$ 4,816**	**$ 4,448**	$ 4,298	$ 4,728	$ 6,748	$ 6,519
Gross margin	**$ 3,283**	**$ 3,068**	**$ 2,970**	**$ 2,692**	$ 2,436	$ 328	$ 4,167	$ 4,141
Net income (loss)	**$ 772**	**$ 729**	**$ 660**	**$ (268)**	$ 7	$ (2,693)	$ 874	$ 798
Net income (loss) per share—basic	**$ 0.11**	**$ 0.10**	**$ 0.09**	**$ (0.04)**	$ 0.00	$ (0.37)	$ 0.12	$ 0.11
Net income (loss) per share—diluted	**$ 0.10**	**$ 0.10**	**$ 0.09**	**$ (0.04)**	$ 0.00	$ (0.37)	$ 0.12	$ 0.11
Cash and cash equivalents and total investments	**$21,456**	**$21,061**	**$21,008**	**$19,080**	$18,517	$17,347	$17,951	$19,585

Stock Market Information

Cisco common stock is traded on the Nasdaq National Market under the symbol CSCO. The following table lists the high and low closing prices for each period indicated:

	2002		2001	
Fiscal	**High**	**Low**	High	Low
First quarter	**$20.30**	**$11.24**	$68.62	$49.81
Second quarter	**$21.79**	**$16.42**	$56.75	$33.31
Third quarter	**$19.80**	**$13.91**	$38.25	$13.62
Fourth quarter	**$17.25**	**$11.61**	$23.48	$16.20

The Company has never paid cash dividends on its common stock and has no present plans to do so. There were 81,058 registered shareholders as of July 27, 2002.

Exhibit 21.01

SUBSIDIARIES OF THE COMPANY

CISCO SYSTEMS (ARGENTINA) S.A.
CISCO SYSTEMS, INC., SUCURSAL ARGENTINA [Branch Office]
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) INTERNATIONAL IP MANAGEMENT LTD.
CISCO SYSTEMS (BERMUDA) HOLDINGS LTD.
CISCO SYSTEMS INSURANCE SERVICES LTD.
CISCO SYSTEMS INTERNATIONAL HOLDINGS LTD.
CISCO SYSTEMS (BERMUDA) IP HOLDINGS LTD.
CISCO SYSTEMS (BERMUDA) LTD.
CISCO DO BRASIL LTDA.
CISCO SYSTEMS BULGARIA EOOD
3010081 NOVA SCOTIA COMPANY
CISCO SYSTEMS CO.
CISCO SYSTEMS CAPITAL CANADA CO. / LES SYSTEMES CISCO CAPITAL CANADA CIE
3801110 CANADA INC.
3045848 NOVA SCOTIA COMPANY
3048504 NOVA SCOTIA COMPANY
CISCO SYSTEMS CANADA CO./LES SYSTEMES CISCO CANADA CIE
CISCO SYSTEMS CHILE S.A.
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Chengdu Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD.
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Beijing Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Chongqing Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Guangzhou Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Shanghai Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Wuhan Liaison Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Shenzhen Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Xian Branch Office
CISCO SYSTEMS (CHINA) NETWORKING TECHNOLOGY CO., LTD., Nanjing Branch Office
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 SYSTEMS DANMARK A/S
CISCO CABLE PRODUCTS AND SOLUTIONS 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 FRANCE S.A.R.L.
CISCO SYSTEMS GMBH
CISCO OPTICAL TRANSPORT GERMANY GmbH
CISCO SYSTEMS MANAGEMENT GmbH
CISCO SYSTEMS HOLDING GmbH & CO. KG
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) PRIVATE LIMITED
PT CISCO SYSTEMS INDONESIA
CISCO SYSTEMS FINANCE INTERNATIONAL
CISCO SYSTEMS LIMITED, Ireland Branch Office
BAYNARD LIMITED
CHARNDON LIMITED
CHELLINGTON LIMITED
CHICHLEY LIMITED
RUSHTHORPE LIMITED
SAXHOW LIMITED
CISCO SYSTEMS INTERNETWORKING (IRELAND) LIMITED
CISCO SYSTEMS ISRAEL LTD.
CISCO SYSTEMS O.I.A. (1998) LTD.
CISCO SYSTEMS INTERNATIONAL B.V., Israel Branch Office
CISCO SYSTEMS (ITALY) S.R.L.
CISCO PHOTONICS ITALY S.R.L.
CISCO SYSTEMS K.K.
CISCO SYSTEMS CAPITAL K.K.
CISCO SYSTEMS INTERNATIONAL B.V., Kazakhstan Representative Office
CISCO SYSTEMS (KOREA) LIMITED
CISCO SYSTEMS CAPITAL (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 INTERNATIONAL S.A.R.L.
CISCO SYSTEMS LUXEMBOURG S.A.R.L.
CISCO SYSTEMS (MALAYSIA) SDN, BHD
CISCO SYSTEMS DE MEXICO, S.A. DE C.V.
CISCO SYSTEMS INTERNATIONAL B.V., Morocco Liaison Office
CISCO SYSTEMS INTERNATIONAL B.V.
CISCO SYSTEMS MANAGEMENT B.V.
CISCO SYSTEMS NETHERLANDS HOLDINGS B.V.
CISCO PHOTONICS HOLDING B.V.
CISCO SYSTEMS NEW ZEALAND LIMITED
CISCO SYSTEMS CAPITAL (AUSTRALIA) PTY LIMITED, NEW ZEALAND BRANCH OFFICE
CISCO SYSTEMS NORWAY AS
CISCO SYSTEMS PAKISTAN (PRIVATE) LIMITED
CISCO SYSTEMS PANAMA S. DE R.L.
CISCO SYSTEMS PERU S.A.
CISCO SYSTEMS MANAGEMENT B.V., PHILIPPINE BRANCH
CISCO SYSTEMS POLAND SP. Z O.O.
CISCO SYSTEMS PORTUGAL — SISTEMAS INFORMÁTICOS, 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
CISCO SYSTEMS LIMITED
CALISTA LIMITED

CISCO SYSTEMS INVESTMENTS LTD.
CISCO SYSTEMS LIMITED
CISCO SYSTEMS (INDIA) LTD.
CISCO SYSTEMS (PUERTO RICO) CORP.
CISCO SYSTEMS FINANCE, INC.
CISCO SYSTEMS SALES & SERVICES, INC.
CISCO TECHNOLOGY, INC.
CISCO SYSTEMS CAPITAL CORPORATION
CISCO ACQUISITION I, INC.
CISCO SYSTEMS HOLDING, INC.
CISCO PHOTONICS, INC.
CISCO ACQUISITION II, INC.
CISCO ACQUISITION III, INC.
CISCO SYSTEMS, INC.
CISCO SYSTEMS CAPITAL FUNDING, LLC
RADIATA, INC.
CISCO SYSTEMS VENEZUELA, C.A.
CISCO SYSTEMS VIETNAM LIMITED
CISCO SYSTEMS MANAGEMENT B.V. — HANOI REPRESENTATIVE OFFICE
CISCO SYSTEMS MANAGEMENT B.V. — HO CHI MINH CITY REPRESENTATIVE OFFICE
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, and incorporation by reference in the Registration Statements on Form S-8 (Nos.: 33-63331, 33-64283, 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, 333-42249, 333-47159, 333-48949, 333-51093, 333-51315, 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, 333-91813, 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, 333-58556, 333-76184, 333-91258 and 333-96797) dated October 11, 1995, November 15, 1995, February 20, 1996, April 1, 1996, July 29, 1996, August 9, 1996, October 18, 1996, October 23, 1996, October 23, 1996, November 21, 1996, December 5, 1996, April 8, 1997, August 14, 1997, August 14, 1997, September 17, 1997, December 15, 1997, March 2, 1998, March 31, 1998, April 27, 1998, April 29, 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 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, January 2, 2002, June 26, 2002, and July 19, 2002, respectively, of Cisco Systems, Inc. of our report dated August 6, 2002, except for Note 14, as to which the date is August 19, 2002 relating to the 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 6, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
September 16, 2002

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, John T. Chambers, President and Chief Executive Officer of Cisco Systems, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) the Annual Report on Form 10-K of the Company for the fiscal year ended July 27, 2002, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 17, 2002

/s/ John T. Chambers

John T. Chambers
President and Chief Executive Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Larry R. Carter, Senior Vice President, Finance and Administration, Chief Financial Officer and Secretary of Cisco Systems, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) the Annual Report on Form 10-K of the Company for the fiscal year ended July 27, 2002, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 17, 2002

/s/ Larry R. Carter

Larry R. Carter
Senior Vice President, Finance and Administration,
Chief Financial Officer and Secretary

End of Filing