CISCO SYSTEMS, INC.
Form 10-Q
May 23, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 28, 2012

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)	**(I.R.S. Employer Identification Number)**

170 West Tasman Drive

San Jose, California 95134

(Address of principal executive office and zip code)

(408) 526-4000

(Registrant s telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

Number of shares of the registrant s common stock outstanding as of May 18, 2012: 5,356,878,940

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Cisco Systems, Inc.

FORM 10-Q for the Quarter Ended April 28, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CISCO SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except par value)

(Unaudited)

	April 28, 2012	July 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,461	$ 7,662
Investments	41,951	36,923
Accounts receivable, net of allowance for doubtful accounts of $216 at April 28, 2012 and $204 at July 30, 2011	3,980	4,698
Inventories	1,497	1,486
Financing receivables, net	3,709	3,111
Deferred tax assets	2,104	2,410
Other current assets	1,510	941
Total current assets	61,212	57,231
Property and equipment, net	3,634	3,916
Financing receivables, net	3,518	3,488
Goodwill	17,006	16,818
Purchased intangible assets, net	2,134	2,541
Other assets	3,650	3,101
TOTAL ASSETS	$ 91,154	$ 87,095
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 83	$ 588
Accounts payable	903	876
Income taxes payable	453	120
Accrued compensation	2,626	3,163
Deferred revenue	8,568	8,025
Other current liabilities	4,491	4,734
Total current liabilities	17,124	17,506
Long-term debt	16,286	16,234
Income taxes payable	1,698	1,191
Deferred revenue	4,080	4,182
Other long-term liabilities	588	723

Total liabilities	39,776	39,836
Commitments and contingencies (Note 12)		
Equity:		
Cisco 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; 5,383 and 5,435 shares issued and outstanding at April 28, 2012 and July 30, 2011, respectively	39,510	38,648
Retained earnings	10,869	7,284
Accumulated other comprehensive income	978	1,294
Total Cisco shareholders equity	51,357	47,226
Noncontrolling interests	21	33
Total equity	51,378	47,259
TOTAL LIABILITIES AND EQUITY	$ 91,154	$ 87,095

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per-share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
NET SALES:				
Product	$ 9,106	$ 8,669	$ 27,176	$ 25,605
Service	2,482	2,197	7,195	6,418
Total net sales	11,588	10,866	34,371	32,023
COST OF SALES:				
Product	3,563	3,437	10,776	10,068
Service	856	770	2,471	2,280
Total cost of sales	4,419	4,207	13,247	12,348
GROSS MARGIN	7,169	6,659	21,124	19,675
OPERATING EXPENSES:				
Research and development	1,358	1,430	4,072	4,339
Sales and marketing	2,383	2,446	7,230	7,292
General and administrative	562	466	1,611	1,376
Amortization of purchased intangible assets	96	103	292	419
Restructuring and other charges	20	31	225	31
Total operating expenses	4,419	4,476	13,430	13,457
OPERATING INCOME	2,750	2,183	7,694	6,218
Interest income	161	161	483	477
Interest expense	(151)	(153)	(449)	(480)
Other income, net	19	12	45	143
Interest and other income, net	29	20	79	140
INCOME BEFORE PROVISION FOR INCOME TAXES	2,779	2,203	7,773	6,358
Provision for income taxes	614	396	1,649	1,100
NET INCOME	$ 2,165	$ 1,807	$ 6,124	$ 5,258
Net income per share:				
Basic	$ 0.40	$ 0.33	$ 1.14	$ 0.95
Diluted	$ 0.40	$ 0.33	$ 1.13	$ 0.94

Shares used in per-share calculation:				
Basic	5,388	5,508	5,383	5,545
Diluted	5,456	5,537	5,418	5,596
Cash dividends declared per common share	$ 0.08	$ 0.06	$ 0.20	$ 0.06

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Nine Months Ended	
	April 28, 2012	April 30, 2011
Cash flows from operating activities:		
Net income	$ 6,124	$ 5,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	1,816	1,813
Share-based compensation expense	1,032	1,237
Provision for doubtful accounts	20	(1)
Deferred income taxes	75	(37)
Excess tax benefits from share-based compensation	(57)	(65)
Net gains on investments	(38)	(185)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	660	603
Inventories	(113)	(105)
Financing receivables, net	(737)	(1,089)
Other assets	(495)	190
Accounts payable	34	(103)
Income taxes, net	151	(192)
Accrued compensation	(451)	(265)
Deferred revenue	482	537
Other liabilities	(100)	(341)
Net cash provided by operating activities	8,403	7,255
Cash flows from investing activities:		
Purchases of investments	(32,690)	(30,303)
Proceeds from sales of investments	19,591	14,942
Proceeds from maturities of investments	7,930	14,134
Acquisition of property and equipment	(830)	(930)
Acquisition of businesses, net of cash and cash equivalents acquired	(333)	(266)
Purchases of investments in privately held companies	(299)	(179)
Return of investments in privately held companies	212	93
Other	175	48
Net cash used in investing activities	(6,244)	(2,461)
Cash flows from financing activities:		
Issuances of common stock	1,115	1,516
Repurchases of common stock	(2,868)	(5,564)
Short-term borrowings, maturities less than 90 days, net	(505)	392
Issuances of debt, maturities greater than 90 days		4,109
Repayments of debt, maturities greater than 90 days		(3,000)
Excess tax benefits from share-based compensation	57	65
Dividends paid	(1,076)	(329)

Other	(83)	71
Net cash used in financing activities	(3,360)	(2,740)
Net (decrease) increase in cash and cash equivalents	(1,201)	2,054
Cash and cash equivalents, beginning of period	7,662	4,581
Cash and cash equivalents, end of period	$ 6,461	$ 6,635
Cash paid for:		
Interest	$ 561	$ 658
Income taxes	$ 1,424	$ 1,328

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(in millions)

(Unaudited)

	123456	123456	123456	123456	123456	123456	123456
Nine Months Ended April 28, 2012	**Shares of Common Stock**	**Common Stock and Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Cisco Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
BALANCE AT JULY 30, 2011	5,435	$ 38,648	$ 7,284	$ 1,294	$ 47,226	$ 33	$ 47,259
Net income			6,124		6,124		6,124
Change in:							
Unrealized gains and losses on investments, net				19	19	(12)	7
Derivative instruments				(39)	(39)		(39)
Cumulative translation adjustment and other				(296)	(296)		(296)
Comprehensive income (loss)					5,808	(12)	5,796
Issuance of common stock	110	1,115			1,115		1,115
Repurchase of common stock	(162)	(1,257)	(1,463)		(2,720)		(2,720)
Cash dividends declared			(1,076)		(1,076)		(1,076)
Tax effects from employee stock incentive plans		(36)			(36)		(36)
Purchase acquisitions		8			8		8
Share-based compensation expense		1,032			1,032		1,032
BALANCE AT APRIL 28, 2012	5,383	$ 39,510	$ 10,869	$ 978	$ 51,357	$ 21	$ 51,378

	123456	123456	123456	123456	123456	123456	123456
Nine Months Ended April 30, 2011	**Shares of Common Stock**	**Common Stock and Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Cisco Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
BALANCE AT JULY 31, 2010	5,655	$ 37,793	$ 5,851	$ 623	$ 44,267	$ 18	$ 44,285
Net income			5,258		5,258		5,258
Change in:							
Unrealized gains and losses on investments				153	153	25	178
Derivative instruments				37	37		37
Cumulative translation adjustment and other				494	494		494
Comprehensive income					5,942	25	5,967
Issuance of common stock	110	1,516			1,516		1,516
Repurchase of common stock	(264)	(1,879)	(3,563)		(5,442)		(5,442)
Cash dividends declared			(329)		(329)		(329)

Tax effects from employee stock incentive plans		(40)			(40)		(40)
Purchase acquisitions		12			12		12
Share-based compensation expense		1,237			1,237		1,237
BALANCE AT APRIL 30, 2011	5,501	$ 38,639	$ 7,217	$ 1,307	$ 47,163	$ 43	$ 47,206

In September 2001, the Company s Board of Directors authorized a stock repurchase program. As of April 28, 2012, the Company s Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program with no termination date. For additional information regarding stock repurchases, see Note 13 to the Consolidated Financial Statements. The stock repurchases since the inception of this program and the related impact on Cisco shareholders equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Total Cisco Shareholders Equity
Repurchases of common stock under the repurchase program	3,631	$ 16,248	$ 58,085	$ 74,333

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The fiscal year for Cisco Systems, Inc. (the Company or Cisco) is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2012 and fiscal 2011 are each 52-week fiscal years. The Consolidated Financial Statements include the accounts of Cisco and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company conducts business globally and is primarily managed on a geographic basis. Beginning in fiscal 2012, the Company is organized into the following three geographic segments: the Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific, Japan, and China (APJC). In fiscal 2011, the Company was organized into four geographic segments, which consisted of United States and Canada, European Markets, Emerging Markets, and Asia Pacific Markets. As a result of this geographic segment change in fiscal 2012, countries within the former Emerging Markets segment were consolidated into either EMEA or the Americas segment depending on their respective geographic locations. The Company has reclassified the geographic segment data for the prior period to conform to the current period s presentation.

The accompanying financial data as of April 28, 2012 and for the three and nine months ended April 28, 2012 and April 30, 2011 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. The July 30, 2011 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended July 30, 2011.

The Company consolidates its investment in a venture fund managed by SOFTBANK Corp. and its affiliates (SOFTBANK) as the Company is the primary beneficiary. The noncontrolling interests attributed to SOFTBANK are presented as a separate component from the Company s equity in the equity section of the Consolidated Balance Sheets. SOFTBANK s share of the earnings in the venture fund is not presented separately in the Consolidated Statements of Operations and is included in other income, net, as this amount is not material for any of the fiscal periods presented. In addition, for the Company s investment in Insieme Networks, Inc. (see Note 12), the loss attributable to the noncontrolling interests is not presented separately in the Consolidated Statements of Operations as this amount is not material for the periods presented.

In the opinion of management, all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly each of the statement of financial position as of April 28, 2012; the results of operations for the three and nine months ended April 28, 2012 and April 30, 2011; and the statement of cash flows and equity for the nine months ended April 28, 2012 and April 30, 2011, as applicable, have been made. The results of operations for the three and nine months ended April 28, 2012 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

In addition to the geographic segment change referred to above, certain other reclassifications have been made to prior period amounts in order to conform to the current period s presentation.

The Company has evaluated subsequent events through the date that the financial statements were issued.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Summary of Significant Accounting Policies

New Accounting Update Recently Adopted

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update to provide guidance on achieving a consistent definition of and common requirements for measurement of and disclosure concerning fair value as between U.S. GAAP and International Financial Reporting Standards (IFRS). This accounting standard update became effective for the Company beginning in the third quarter of fiscal 2012. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 9.

Recent Accounting Standards or Updates Not Yet Effective

In June 2011, the FASB issued an accounting standard update to provide guidance on increasing the prominence of items reported in other comprehensive income. This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of equity and requires that the total of comprehensive income, the components of net income, and the components of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This accounting standard update is effective for the Company beginning in the first quarter of fiscal 2013, and it will result in changes in the Company s financial statement presentation.

In August 2011, the FASB approved a revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2013, and early adoption is permitted.

In December 2011, the FASB issued an accounting standard update requiring enhanced disclosures about certain financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements or similar agreements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, at which time the Company will include the applicable disclosures required by this accounting standard update.

3. Business Combinations

(a) Acquisition Summary

The Company completed 5 business combinations during the nine months ended April 28, 2012. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Shares Issued	Purchase Consideration	Net Liabilities Assumed	Purchased Intangible Assets	Goodwill
Lightwire, Inc.		$ 239	$ (15)	$ 97	$ 157
All others		122	(21)	84	59

Total acquisitions	$ 361	$ (36)	$ 181	$ 216

The Company acquired Lightwire, Inc. (Lightwire) in the third quarter of fiscal 2012. With its acquisition of Lightwire, a developer of advanced optical interconnect technology for high-speed networking applications, the Company aims to develop and deliver cost-effective, high-speed networks with the next generation of optical connectivity.

The total purchase consideration related to the Company s business combinations completed during the nine months ended April 28, 2012 consisted of either cash consideration or cash consideration along with vested share-based awards assumed. The total cash and cash equivalents acquired from these business combinations were immaterial. Total transaction costs related to the Company s business combination activities were $9 million and $10 million for the nine months ended April 28, 2012 and April 30, 2011, respectively. These transaction costs were expensed as incurred as general and administrative (G&A) expenses.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company continues to evaluate certain assets and liabilities related to business combinations completed during the recent periods. Additional information, which existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill.

The goodwill generated from the Company s business combinations completed during the nine months ended April 28, 2012 is primarily related to expected synergies. The goodwill is not deductible for U.S. federal income tax purposes.

The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations for the acquisitions completed during the nine months ended April 28, 2012 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company s financial results.

(b) Pending Acquisition of NDS Group Limited

On March 15, 2012, the Company entered into a definitive agreement to acquire NDS Group Limited (NDS), a leading provider of video software and content security solutions that enable service providers and media companies to securely deliver and monetize new video entertainment experiences. NDS uses the combination of a software platform and services to create differentiated video offerings for service providers that enable subscribers to intuitively view, search and navigate digital content anytime, anywhere and on any device.

The acquisition of NDS is expected to complement and accelerate the delivery of Cisco Videoscape, Cisco s comprehensive platform that enables service providers and media companies to deliver next-generation entertainment experiences. With the NDS acquisition, the Company aims to broaden its opportunities in the service provider market, and to expand its reach into emerging markets such as China and India, where NDS has an established customer footprint.

Under the terms of the agreement, Cisco will pay total consideration of approximately $5 billion, which includes the assumption of debt and retention-based incentives, to acquire all of the business and operations of NDS. The acquisition has been approved by the boards of directors of both companies. The acquisition is expected to close during the second half of calendar year 2012 and is subject to customary closing conditions, including regulatory review in the United States and elsewhere.

4. Goodwill and Purchased Intangible Assets

(a) Goodwill

Beginning in fiscal 2012, the Company s reportable segments were changed to the following segments: the Americas, EMEA, and APJC. As a result, the Company reallocated the goodwill at July 30, 2011 to these reportable segments. The following table presents the goodwill allocated to the Company s reportable segments as of and during the nine months ended April 28, 2012 (in millions):

	Balance at July 30, 2011	Acquisitions	Other	Balance at April 28, 2012
Americas	$ 11,627	$ 124	$ (2)	$ 11,749
EMEA	3,272	57	(26)	3,303
APJC	1,919	35		1,954
Total	$ 16,818	$ 216	$ (28)	$ 17,006

In the table above, the column entitled Other primarily includes foreign currency translation and purchase accounting adjustments.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(b) Purchased Intangible Assets

The following table presents details of the Company s intangible assets acquired through business combinations completed during the nine months ended April 28, 2012 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES	
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IN-PROCESS RESEARCH & DEVELOPMENT	TOTAL
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Amount	Amount
Lightwire, Inc.	5.0	$ 97		$		$	$	$ 97
All others	3.6	84						84
Total		$ 181		$		$	$	$ 181

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

April 28, 2012	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$ 2,240	$ (802)	$ 1,438
Customer relationships	2,263	(1,587)	676
Other	121	(109)	12
Total purchased intangible assets with finite lives	4,624	(2,498)	2,126
In-process research & development, with indefinite lives	8		8
Total	$ 4,632	$ (2,498)	$ 2,134

July 30, 2011	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$ 1,961	$ (561)	$ 1,400
Customer relationships	2,277	(1,346)	931
Other	123	(91)	32

Total purchased intangible assets with finite lives	4,361		(1,998)	2,363
In-process research & development, with indefinite lives	178			178
Total	$ 4,539	$	(1,998)	$ 2,541

Purchased intangible assets include intangible assets acquired through business combinations as well as through direct purchases or licenses.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the amortization of purchased intangible assets (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Amortization of purchased intangible assets:				
Cost of sales	$ 108	$ 110	$ 303	$ 387
Operating expenses:				
Amortization of purchased intangible assets	96	103	292	419
Restructuring and other charges		8		8
Total	$ 204	$ 221	$ 595	$ 814

There were no impairment charges related to purchased intangible assets during the three and nine months ended April 28, 2012. Amortization of purchased intangible assets for the three and nine months ended April 30, 2011 included impairment charges of $9 million and $164 million, respectively. The $164 million in impairment charges consisted of $64 million of charges to product cost of sales, $92 million of charges to amortization of purchased intangibles and $8 million of charges to restructuring and other charges. These impairment charges were primarily due to declines in estimated fair value resulting from reductions in expected future cash flows associated with certain of the Company s consumer products and were categorized as follows: $97 million in technology assets, $40 million in customer relationships, and $27 million in other purchased intangible assets.

The estimated future amortization expense of purchased intangible assets with finite lives as of April 28, 2012 is as follows (in millions):

Fiscal Year	Amount
2012 (remaining three months)	$ 199
2013	699
2014	512
2015	438
2016	211
Thereafter	67
Total	$ 2,126

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Restructuring and Other Charges

In fiscal 2011, the Company initiated a number of key, targeted actions to address several areas in its business model. These actions are intended to simplify and focus the Company s organization and operating model; align the Company s cost structure given transitions in the marketplace; divest or exit underperforming operations; and deliver value to the Company s shareholders. The Company is taking these actions to align its business based on its five foundational priorities: leadership in its core business (routing, switching, and associated services), which includes comprehensive security and mobility solutions; collaboration; data center virtualization and cloud; video; and architectures for business transformation.

Pursuant to the restructuring that the Company announced in July 2011, the Company has incurred cumulative charges of $946 million (included as part of the charges discussed below). The Company expects that the total pre-tax charges pursuant to these restructuring actions will be approximately $1 billion and it expects the remaining charges to be incurred in the fourth quarter of fiscal 2012. The following table summarizes the activities related to the restructuring and other charges since the Company s July 2011 announcement related to the realignment and restructuring of the Company s business as well as certain consumer product lines as announced during April 2011 (in millions):

	Voluntary Early Retirement Program	Employee Severance	Goodwill Intangible Assets	Other	Total
Charges in fiscal 2011	$ 453	$ 247	$ 71	$ 28	$ 799
Cash payments	(436)	(13)			(449)
Non-cash items			(71)	(17)	(88)
Balance as of July 30, 2011	17	234		11	262
Charges		195		30	225
Cash payments	(17)	(380)		(16)	(413)
Non-cash items				(19)	(19)
Balance as of April 28, 2012	$	$ 49	$	$ 6	$ 55

During the three months ended April 28, 2012, the Company incurred restructuring charges of $20 million. During the nine months ended April 28, 2012, the Company incurred total restructuring charges of $225 million consisting of $195 million of employee severance charges and $30 million of other restructuring charges. The employee severance charges consisted of $233 million of charges primarily related to impacted employees in the Company s international locations, partially offset by a reduction of $38 million related to a change in estimate regarding certain employee severance charges recorded in the fourth quarter of fiscal 2011. Other charges incurred during the nine months ended April 28, 2012 were primarily for the consolidation of excess facilities, as well as an incremental charge related to the sale of the Company s Juarez, Mexico manufacturing operations, which sale was completed in the first quarter of fiscal 2012.

During the three and nine months ended April 30, 2011, the Company recorded restructuring charges of approximately $120 million in connection with restructuring related to the Company s consumer product lines, most notably exiting the Flip Video camera product line, which were recorded in cost of sales and not included in the preceding table.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Balance Sheet Details

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

	April 28, 2012	July 30, 2011
Inventories:		
Raw materials	$ 114	$ 219
Work in process	37	52
Finished goods:		
Distributor inventory and deferred cost of sales	629	631
Manufactured finished goods	437	331
Total finished goods	1,066	962
Service-related spares	202	182
Demonstration systems	78	71
Total	$ 1,497	$ 1,486
Property and equipment, net:		
Land, buildings, and building & leasehold improvements	$ 4,547	$ 4,760
Computer equipment and related software	1,454	1,429
Production, engineering, and other equipment	5,286	5,093
Operating lease assets [1]	291	293
Furniture and fixtures	489	491
	12,067	12,066
Less accumulated depreciation and amortization [1]	(8,433)	(8,150)
Total	$ 3,634	$ 3,916

(1) Accumulated depreciation related to operating lease assets was $176 and $169 as of April 28, 2012 and July 30, 2011, respectively.

	April 28, 2012	July 30, 2011
Other assets:		
Deferred tax assets	$ 2,063	$ 1,864
Investments in privately held companies	841	796
Other	746	441

Total	$ 3,650	$ 3,101
Deferred revenue:		
Service	$ 8,778	$ 8,521
Product:		
Unrecognized revenue on product shipments and other deferred revenue	2,943	3,003
Cash receipts related to unrecognized revenue from two-tier distributors	927	683
Total product deferred revenue	3,870	3,686
Total	$ 12,648	$ 12,207
Reported as:		
Current	$ 8,568	$ 8,025
Noncurrent	4,080	4,182
Total	$ 12,648	$ 12,207

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Financing Receivables and Guarantees

(a) Financing Receivables

Financing receivables primarily consist of lease receivables, loan receivables, and financed service contracts and other. Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company s and complementary third-party products and are typically collateralized by a security interest in the underlying assets. Lease receivables consist of arrangements with terms of four years on average, while loan receivables generally have terms of up to three years. The financed service contracts and other category includes financing receivables related to technical support and advanced services, as well as receivables related to financing of certain indirect costs associated with leases. Revenue related to the technical support services is typically deferred and included in deferred service revenue and is recognized ratably over the period during which the related services are to be performed, which typically ranges from one to three years.

A summary of the Company s financing receivables is presented as follows (in millions):

April 28, 2012	Lease Receivables	Loan Receivables	Financed Service Contracts & Other	Total Financing Receivables
Gross	$ 3,406	$ 1,827	$ 2,628	$ 7,861
Unearned income	(253)			(253)
Allowance for credit loss	(252)	(118)	(11)	(381)
Total, net	$ 2,901	$ 1,709	$ 2,617	$ 7,227
Reported as:				
Current	$ 1,192	$ 1,029	$ 1,488	$ 3,709
Noncurrent	1,709	680	1,129	3,518
Total, net	$ 2,901	$ 1,709	$ 2,617	$ 7,227

July 30, 2011	Lease Receivables	Loan Receivables	Financed Service Contracts & Other	Total Financing Receivables
Gross	$ 3,111	$ 1,468	$ 2,637	$ 7,216
Unearned income	(250)			(250)
Allowance for credit loss	(237)	(103)	(27)	(367)
Total, net	$ 2,624	$ 1,365	$ 2,610	$ 6,599
Reported as:				
Current	$ 1,087	$ 673	$ 1,351	$ 3,111
Noncurrent	1,537	692	1,259	3,488

Total, net	$ 2,624	$ 1,365	$ 2,610	$ 6,599

As of April 28, 2012 and July 30, 2011, the deferred service revenue related to the financed service contracts and other was $1,888 million and $2,044 million, respectively.

Contractual maturities of the gross lease receivables at April 28, 2012 are summarized as follows (in millions):

Fiscal Year	**Amount**
2012 (remaining three months)	$ 430
2013	1,290
2014	908
2015	514
2016	217
Thereafter	47
Total	$ 3,406

Actual cash collections may differ from the contractual maturities due to early customer buyouts, refinancings, or defaults.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(b) Credit Quality of Financing Receivables

Financing receivables categorized by the Company s internal credit risk rating as of April 28, 2012 and July 30, 2011 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING					
April 28, 2012	**1 to 4**	**5 to 6**	**7 and Higher**	**Total**	**Residual Value**	**Gross Receivables, Net of Unearned Income**
Lease receivables	$ 1,535	$ 1,302	$ 26	$ 2,863	$ 290	$ 3,153
Loan receivables	830	942	55	1,827		1,827
Financed service contracts & other	1,593	977	58	2,628		2,628
Total	$ 3,958	$ 3,221	$ 139	$ 7,318	$ 290	$ 7,608

	INTERNAL CREDIT RISK RATING					
July 30, 2011	**1 to 4**	**5 to 6**	**7 and Higher**	**Total**	**Residual Value**	**Gross Receivables, Net of Unearned Income**
Lease receivables	$ 1,249	$ 1,275	$ 41	$ 2,565	$ 296	$ 2,861
Loan receivables	662	767	39	1,468		1,468
Financed service contracts & other	1,623	958	56	2,637		2,637
Total	$ 3,534	$ 3,000	$ 136	$ 6,670	$ 296	$ 6,966

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers: lease receivables, loan receivables, and financed service contracts and other. Effective in the second quarter of fiscal 2012, the Company combined its financing receivables into a single class as the two prior classes, Established Markets and Growth Markets, now exhibit similar risk characteristics as reflected by the Company s historical losses. The Company has reclassified applicable financing receivables data for the prior periods presented to conform to the current period s presentation. In addition, effective in the second quarter of fiscal 2012, the Company also refined its methodology for calculating its allowance for financing receivables as discussed under (c) below, Allowance for Credit Loss Rollforward.

The Company s internal credit risk ratings of 1 through 4 correspond to investment-grade ratings, while credit risk ratings of 5 and 6 correspond to non-investment-grade ratings. Credit risk ratings of 7 and higher correspond to substandard ratings and constitute a relatively small portion of the Company s financing receivables.

In circumstances when collectability is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company s revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of April 28, 2012 and July 30, 2011 were $2,484 million and $2,793 million, respectively, and they were associated with financing receivables (net of unearned income) of $7,608 million and $6,966 million as of their respective period ends. The losses that the Company has incurred historically as well as in the periods presented with respect to its financing receivables have been immaterial and consistent with the performance of an investment-grade portfolio. The Company did not modify any financing receivables during the periods presented.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables present the aging analysis of financing receivables as of April 28, 2012 and July 30, 2011 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
April 28, 2012	**31-60**	**61-90**	**91+**	**Total Past Due**	**Current**	**Gross Receivables, Net of Unearned Income**	**Non-Accrual Financing Receivables**	**Impaired Financing Receivables**
Lease receivables	$ 134	$ 76	$ 221	$ 431	$ 2,722	$ 3,153	$ 21	$ 13
Loan receivables	14	10	6	30	1,797	1,827	9	8
Financed service contracts & other	101	70	435	606	2,022	2,628	14	8
Total	$ 249	$ 156	$ 662	$ 1,067	$ 6,541	$ 7,608	$ 44	$ 29

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
July 30, 2011	**31-60**	**61-90**	**91+**	**Total Past Due**	**Current**	**Gross Receivables, Net of Unearned Income**	**Non-Accrual Financing Receivables**	**Impaired Financing Receivables**
Lease receivables	$ 89	$ 35	$ 152	$ 276	$ 2,585	$ 2,861	$ 34	$ 24
Loan receivables	8	7	21	36	1,432	1,468	4	4
Financed service contracts & other	68	33	265	366	2,271	2,637	17	6
Total	$ 165	$ 75	$ 438	$ 678	$ 6,288	$ 6,966	$ 55	$ 34

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables are presented by contract and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The preceding aging tables exclude pending adjustments on billed tax assessment in certain international markets. The balances of either unbilled or current financing receivables included in the category of greater than 90 days past due for lease receivables, loan receivables, and financed service contracts and other were, respectively, $184 million, $2 million, and $371 million as of April 28, 2012; and were, respectively, $116 million, $15 million, and $230 million as of July 30, 2011.

As of April 28, 2012, the Company had financing receivables of $99 million, net of unbilled or current receivables from the same contract, that were in the category for greater than 90 days past due but remained on accrual status. Such balance was $50 million as of July 30, 2011. A financing receivable may be placed on non-accrual status earlier if, in management s opinion, a timely collection of the full principal and interest becomes uncertain.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(c) Allowance for Credit Loss Rollforward

The allowances for credit loss and the related financing receivables are summarized as follows (in millions):

Allowance for Credit Loss	Lease Receivables	Loan Receivables	Financed Service Contracts & Other	Total
BALANCE AT JULY 30, 2011	$ 237	$ 103	$ 27	$ 367
Provisions	2	5	2	9
Foreign exchange and other	(6)	(5)		(11)
BALANCE AT OCTOBER 29, 2011	233	103	29	365
Provisions	18	4	(18)	4
Foreign exchange and other	(1)	3	(2)	
BALANCE AT JANUARY 28, 2012	250	110	9	369
Provisions	3	7	2	12
Write-offs, net of recoveries	(1)			(1)
Foreign exchange and other		1		1
BALANCE AT APRIL 28, 2012	$ 252	$ 118	$ 11	$ 381
Gross receivables net of unearned income, as of April 28, 2012	$ 3,153	$ 1,827	$ 2,628	$ 7,608

Allowance for Credit Loss	Lease Receivables	Loan Receivables	Financed Service Contracts & Other	Total
BALANCE AT JULY 31, 2010	$ 207	$ 73	$ 21	$ 301
Provisions	6	(15)	3	(6)
Write offs, net of recoveries	(1)		(1)	(2)
Foreign exchange and other	20	22		42
BALANCE AT OCTOBER 30, 2010	232	80	23	335
Provisions	15	24	4	43
Foreign exchange and other	(14)	(20)		(34)
BALANCE AT JANUARY 29, 2011	233	84	27	344
Provisions	3	26	(2)	27
Write-offs, net of recoveries	(5)	(2)	(1)	(8)
Foreign exchange and other	5	3	1	9
BALANCE AT APRIL 30, 2011	$ 236	$ 111	$ 25	$ 372
Gross receivables net of unearned income, as of April 30, 2011	$ 2,648	$ 1,373	$ 2,495	$ 6,516

When determining the allowances for credit loss, financing receivables are evaluated on an individual or a collective basis. When evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis, the Company considers historical experience, credit quality, age of the receivable balances, and economic conditions that may affect a customer s ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including any accrued interest, are assessed at the customer level and will be fully reserved. Typically, the Company considers receivables with a risk rating of 8 or higher to be impaired. Financing receivables that were individually evaluated for impairment during the periods presented were not material and therefore are not presented separately in the preceding tables.

The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. Effective at the beginning of the second quarter of fiscal 2012, the Company refined its methodology for determining the portion of its allowance for credit loss that is evaluated on a collective basis. The refinement consists of more systematically giving effect to economic conditions, concentration of risk and correlation. The Company also began to use expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default. Previously the Company used only historical loss rates published by the same third-party credit-rating agency. These refinements are intended to better identify changes in macroeconomic conditions and credit risk. There was not a material change to the Company s total allowance for credit loss related to financing receivables as a result of these methodology refinements. See the Company s Annual Report on Form 10-K for the fiscal year ended July 30, 2011 for a discussion of the methodology applied in previous periods.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(d) Financing Guarantees

In the ordinary course of business, the Company provides financing guarantees for various third-party financing arrangements extended to channel partners and end-user customers. Payments under these financing guarantee arrangements were not material for the periods presented.

Channel Partner Financing Guarantees The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The volume of channel partner financing was $5.2 billion and $4.4 billion for the three months ended April 28, 2012 and April 30, 2011, respectively. The volume of channel partner financing was $15.9 billion and $13.4 billion for the nine months ended April 28, 2012 and April 30, 2011, respectively. The balance of the channel partner financing subject to guarantees was $1.3 billion as of April 28, 2012 and $1.4 billion as of July 30, 2011.

End-User Financing Guarantees The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans that typically have terms of up to three years. The volume of financing provided by third parties for leases and loans which the Company had provided guarantees was $99 million and $45 million for the three months ended April 28, 2012 and April 30, 2011, respectively, and was $194 million and $153 million for the nine months ended April 28, 2012 and April 30, 2011, respectively.

Financing Guarantee Summary The aggregate amount of financing guarantees outstanding at April 28, 2012 and July 30, 2011, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

	April 28, 2012	July 30, 2011
Maximum potential future payments relating to financing guarantees:		
Channel partner	$ 283	$ 336
End user	258	277
Total	$ 541	$ 613
Deferred revenue associated with financing guarantees:		
Channel partner	$ (209)	$ (248)
End user	(224)	(248)
Total	$ (433)	$ (496)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	$ 108	$ 117

8. Investments

(a) Summary of Available-for-Sale Investments

The following tables summarize the Company s available-for-sale investments (in millions):

April 28, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	$ 25,118	$ 41	$ (2)	$ 25,157
U.S. government agency securities	6,884	24		6,908
Non-U.S. government and agency securities	2,219	8		2,227
Corporate debt securities	6,080	57	(6)	6,131
Asset-backed securities	16		(2)	14
Total fixed income securities	40,317	130	(10)	40,437
Publicly traded equity securities	826	692	(4)	1,514
Total	$ 41,143	$ 822	$ (14)	$ 41,951

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

July 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	$ 19,087	$ 52	$	$ 19,139
U.S. government agency securities	8,742	35	(1)	8,776
Non-U.S. government and agency securities	3,119	14	(1)	3,132
Corporate debt securities	4,333	65	(4)	4,394
Asset-backed securities	120	5	(4)	121
Total fixed income securities	35,401	171	(10)	35,562
Publicly traded equity securities	734	639	(12)	1,361
Total	$ 36,135	$ 810	$ (22)	$ 36,923

U.S. government agency securities include corporate debt securities that are guaranteed by the Federal Deposit Insurance Corporation (FDIC) while non-U.S. government and agency securities include agency and corporate debt securities that are guaranteed by non-U.S. governments.

(b) Gains and Losses on Available-for-Sale Investments

The following table presents the gross realized gains and gross realized losses related to the Company s available-for-sale investments (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Gross realized gains	$ 118	$ 107	$ 542	$ 272
Gross realized losses	(88)	(58)	(466)	(116)
Total	$ 30	$ 49	$ 76	$ 156

The following table presents the realized net gains (losses) related to the Company s available-for-sale investments (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net gains on investments in publicly traded equity securities	$ 15	$ 42	$ 30	$ 72
Net gains on investments in fixed income securities	15	7	46	84
Total	$ 30	$ 49	$ 76	$ 156

Impairment charges on available-for-sale investments were not material for the periods presented.

The following table summarizes the activity related to credit losses for fixed income securities (in millions):

Nine Months Ended	**April 28, 2012**	**April 30, 2011**
Balance at beginning of period	$ (23)	$ (95)
Sales of other-than-temporarily impaired fixed income securities	22	52
Balance at end of period	$ (1)	$ (43)

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at April 28, 2012 and July 30, 2011 (in millions):

April 28, 2012	UNREALIZED LOSSES LESS THAN 12 MONTHS Fair Value	Gross Unrealized Losses	UNREALIZED LOSSES 12 MONTHS OR GREATER Fair Value	Gross Unrealized Losses	TOTAL Fair Value	Gross Unrealized Losses
Fixed income securities:						
U.S. government securities	$ 6,756	$ (2)	$	$	$ 6,756	$ (2)
Corporate debt securities	1,718	(6)	21		1,739	(6)
Asset-backed securities			14	(2)	14	(2)
Total fixed income securities	8,474	(8)	35	(2)	8,509	(10)
Publicly traded equity securities	42	(4)	1		43	(4)
Total	$ 8,516	$ (12)	$ 36	$ (2)	$ 8,552	$ (14)

July 30, 2011	UNREALIZED LOSSES LESS THAN 12 MONTHS Fair Value	Gross Unrealized Losses	UNREALIZED LOSSES 12 MONTHS OR GREATER Fair Value	Gross Unrealized Losses	TOTAL Fair Value	Gross Unrealized Losses
Fixed income securities:						
U.S. government agency securities	$ 2,310	$ (1)	$	$	$ 2,310	$ (1)
Non-U.S. government and agency securities	875	(1)			875	(1)
Corporate debt securities	548	(2)	56	(2)	604	(4)
Asset-backed securities			105	(4)	105	(4)
Total fixed income securities	3,733	(4)	161	(6)	3,894	(10)
Publicly traded equity securities	112	(12)			112	(12)
Total	$ 3,845	$ (16)	$ 161	$ (6)	$ 4,006	$ (22)

As of April 28, 2012, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of April 28, 2012, the Company anticipates that it will recover the entire amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three and nine months ended April 28, 2012.

The Company has evaluated its publicly traded equity securities as of April 28, 2012 and has determined that there was no indication of other-than-temporary impairments in the respective categories of unrealized losses. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company s intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

(c) Maturities of Fixed Income Securities

The following table summarizes the maturities of the Company s fixed income securities at April 28, 2012 (in millions):

	Amortized Cost	Fair Value
Less than 1 year	$ 18,983	$ 19,005
Due in 1 to 2 years	13,046	13,091
Due in 2 to 5 years	8,175	8,226
Due after 5 years	113	115
Total	$ 40,317	$ 40,437

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(d) Securities Lending

The Company periodically engages in securities lending activities with certain of its available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the nine months ended April 28, 2012 was approximately $0.4 billion. The average daily balance of securities lending for the nine months ended April 30, 2011 was approximately $1.9 billion. The Company requires collateral equal to at least 102% of the fair market value of the loaned security in the form of cash or liquid, high-quality assets. The Company engages in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify the Company against any collateral losses. The Company did not experience any losses in connection with the secured lending of securities during the periods presented. As of April 28, 2012 and July 30, 2011, the Company had no outstanding securities lending transactions.

9. Fair Value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

(a) Fair Value Hierarchy

The accounting guidance for fair value measurement requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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(Unaudited)

(b) Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of April 28, 2012 and July 30, 2011 were as follows (in millions):

	APRIL 28, 2012 FAIR VALUE MEASUREMENTS				JULY 30, 2011 FAIR VALUE MEASUREMENTS			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
Assets								
Cash equivalents:								
Money market funds	$ 4,293	$	$	$ 4,293	$ 5,852	$	$	$ 5,852
U.S. government agency securities						1		1
Corporate debt securities		12		12				
Available-for-sale investments:								
U.S. government securities		25,157		25,157		19,139		19,139
U.S. government agency securities		6,908		6,908		8,776		8,776
Non-U.S. government and agency securities		2,227		2,227		3,132		3,132
Corporate debt securities		6,131		6,131		4,394		4,394
Asset-backed securities		14		14			121	121
Publicly traded equity securities	1,514			1,514	1,361			1,361
Derivative assets		233	1	234		220	2	222
Total	$ 5,807	$ 40,682	$ 1	$ 46,490	$ 7,213	$ 35,662	$ 123	$ 42,998
Liabilities:								
Derivative liabilities	$	$ 22	$	$ 22	$	$ 24	$	$ 24
Total	$	$ 22	$	$ 22	$	$ 24	$	$ 24

Level 2 fixed income securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets and liabilities. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs. The Company is ultimately responsible for the financial statements and underlying estimates. The Company s derivative instruments are primarily classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

Level 3 assets include certain derivative instruments, the values of which are determined based on discounted cash flow models using inputs that the Company could not corroborate with market data. The asset-backed securities were reclassified from Level 3 to Level 2 at January 28, 2012, the end of the Company s fiscal second quarter, as circumstances indicated an increase in market activity and related market observable data is available for such financial assets.

The following tables present a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended April 28, 2012 and April 30, 2011 (in millions):

	Asset-Backed Securities	Derivative Assets	Total
Balance at July 30, 2011	$ 121	$ 2	$ 123
Total gains and losses (realized and unrealized):			
Included in other income, net	3		3
Included in other comprehensive income	(3)		(3)
Sales	(14)	(1)	(15)
Transfer into Level 2	(107)		(107)
Balance at April 28, 2012	$	$ 1	$ 1

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(Unaudited)

	Asset-Backed Securities	Derivative Assets	Total
Balance at July 31, 2010	$ 149	$ 3	$ 152
Total gains and losses (realized and unrealized):			
Included in other income, net	3		3
Included in operating expense		(1)	(1)
Included in other comprehensive income	(1)		(1)
Sales and maturities	(21)		(21)
Balance at April 30, 2011	$ 130	$ 2	$ 132
Losses attributable to assets still held as of April 30, 2011	$	$ (1)	$ (1)

(c) Assets Measured at Fair Value on a Nonrecurring Basis

The following tables present the Company s financial instruments and nonfinancial assets that were measured at fair value on a nonrecurring basis during the indicated periods and the related recognized gains and losses for the periods (in millions):

	FAIR VALUE MEASUREMENTS					
	Net Carrying Value as of April 28, 2012	Level 1	Level 2	Level 3	Total Losses for the Three Months Ended April 28, 2012	Total Gains (Losses) for the Nine Months Ended April 28, 2012
Investments in privately held companies	$ 17	$	$	$ 17	$ (15)	$ (17)
Property held for sale	$ 52	$	$	$ 52	(76)	(192)
Gains on assets no longer held as of April 28, 2012						14
Total losses for nonrecurring measurements					$ (91)	$ (195)

	FAIR VALUE MEASUREMENTS					
	Net Carrying Value as of April 30, 2011	Level 1	Level 2	Level 3	Total Losses for the Three Months Ended April 30, 2011	Total Losses for the Nine Months Ended April 30, 2011
Investments in privately held companies	$ 11	$	$	$ 11	$ (1)	$ (6)
Purchased intangible assets	$	$	$	$	(9)	(164)
Total losses for nonrecurring measurements					$ (10)	$ (170)

The assets in the preceding tables were measured at fair value due to events or circumstances the Company identified as having significant impact on their fair value during the respective periods. To arrive at the valuation of these assets, the Company considers any significant changes in the financial metrics and economic variables and also uses third-party valuation reports to assist in the valuation as necessary.

The fair value measurement of the impaired investments was classified as Level 3 because significant unobservable inputs were used in the valuation due to the absence of quoted market prices and inherent lack of liquidity. Significant unobservable inputs, which included financial metrics of comparable private and public companies, financial condition and near-term prospects of the investees, recent financing activities of the investee, and the investee s capital structure as well as other economic variables, reflected the assumptions market participants would use in pricing these assets. The impairment charges, representing the difference between the cost and the fair value as a result of the evaluation, were recorded to other income, net.

The fair value of purchased intangible assets measured at fair value on a nonrecurring basis was categorized as Level 3 due to the use of significant unobservable inputs in the valuation. Significant unobservable inputs that were used included expected revenues and net income related to the assets and the expected life of the assets. The difference between the estimated fair value and the carrying value of the assets was recorded as an impairment charge. For the three and nine months ended April 30, 2011, such impairment charges were recorded in operating expenses and cost of sales as appropriate.

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The fair value of property held for sale was measured with the assistance of third-party valuation models that used comparable property values in less active markets. The fair value measurement was categorized as Level 3 as significant unobservable inputs were used in the valuation report. The impairment charges as a result of the valuations, which represented the difference between the fair value and the carrying amount of the assets held for sale, were included in G&A expenses.

(d) Other Fair Value Disclosures

As of April 28, 2012, the carrying value of the Company s investments in privately held companies that were accounted for under the cost method was $245 million. It was not practicable to estimate the fair value of this portfolio.

The fair value of the Company s short-term loan receivables and financed service contracts approximates their carrying value due to their short duration.

The aggregate carrying value of the Company s long-term loan receivables and financed service contracts and other as of April 28, 2012 was $1.8 billion with an estimated fair value that approximates the carrying value. The Company uses significant unobservable inputs in determining the discounted cash flows for the assets to estimate the fair value of its long-term loan receivables and financed service contracts and therefore they are categorized as Level 3.

As of April 28, 2012, the fair value of the Company s long-term debt was $18.2 billion with a carrying amount of $16.3 billion. The fair value of the long-term debt is determined based on observable market prices in a less active market and is categorized as Level 2 in the fair value hierarchy.

10. Borrowings
(a) Short-Term Debt

The following table summarizes the Company s short-term debt (in millions, except percentages):

	April 28, 2012		July 30, 2011	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Commercial paper	$		$ 500	0.14 %
Other notes and borrowings	83	5.88%	88	4.59 %
Total short-term debt	$ 83		$ 588	

In fiscal 2011, the Company established a short-term debt financing program of up to $3.0 billion through the issuance of commercial paper notes. The Company uses the proceeds from the issuance of commercial paper notes for general corporate purposes. The Company had no commercial paper outstanding as of April 28, 2012.

Other notes and borrowings in the preceding table consist of notes and credit facilities established with a number of financial institutions that are available to certain foreign subsidiaries of the Company. These notes and credit facilities are subject to various terms and foreign currency market interest rates pursuant to individual financial arrangements between the financing institution and the applicable foreign subsidiary.

As of April 28, 2012, the estimated fair value of the short-term debt approximates its carrying value due to the short maturities.

CISCO SYSTEMS, INC.

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(Unaudited)

(b) Long-Term Debt

The following table summarizes the Company s long-term debt (in millions, except percentages):

	April 28, 2012		July 30, 2011	
	Amount	**Effective Rate**	**Amount**	**Effective Rate**
Senior Notes:				
Floating-rate notes, due 2014	$ 1,250	0.82 %	$ 1,250	0.60 %
1.625% fixed-rate notes, due 2014	2,000	0.80 %	2,000	0.58 %
2.90% fixed-rate notes, due 2014	500	3.11 %	500	3.11 %
5.50% fixed-rate notes, due 2016	3,000	3.17 %	3,000	3.06 %
3.15% fixed-rate notes, due 2017	750	1.04 %	750	0.81 %
4.95% fixed-rate notes, due 2019	2,000	5.08 %	2,000	5.08 %
4.45% fixed-rate notes, due 2020	2,500	4.50 %	2,500	4.50 %
5.90% fixed-rate notes, due 2039	2,000	6.11 %	2,000	6.11 %
5.50% fixed-rate notes, due 2040	2,000	5.67 %	2,000	5.67 %
Total	16,000		16,000	
Other long-term debt	10	0.19 %		
Unaccreted discount	(70)		(73)	
Hedge accounting adjustment	346		307	
Total long-term debt	$ 16,286		$ 16,234	

To achieve its interest rate risk management objectives, the Company entered into interest rate swaps with an aggregate notional amount of $4.25 billion designated as fair value hedges of certain fixed-rate senior notes. In effect, these swaps convert the fixed interest rates of the fixed-rate notes to floating interest rates based on the London InterBank Offered Rate (LIBOR). The gains and losses related to changes in the fair value of the interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. See Note 11.

The effective rates for the fixed-rate debt include the interest on the notes, the accretion of the discount, and, if applicable, adjustments related to hedging. Interest is payable semiannually on each class of the senior fixed-rate notes and payable quarterly on the floating-rate notes. Each of the senior fixed-rate notes is redeemable by the Company at any time, subject to a make-whole premium.

The senior notes rank at par with the issued commercial paper notes, as well as any other commercial paper notes that may be issued in the future pursuant to the short-term debt financing program, as discussed earlier under Short-Term Debt. As of April 28, 2012, the Company was in compliance with all debt covenants.

Future principal payments for long-term debt as of April 28, 2012 are summarized as follows (in millions):

Fiscal Year	**Amount**
2014	$ 3,260
2015	500

2016	3,000
Thereafter	9,250
Total	$ 16,010

(c) Credit Facility

On February 17, 2012, the Company entered into a credit agreement with certain institutional lenders that provides for a $3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America s prime rate as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on the Company s senior debt credit ratings as published by Standard & Poor s Financial Services, LLC and Moody s Investors Service, Inc. The credit agreement requires the Company to comply with certain covenants, including that it maintains an interest coverage ratio as defined in the agreement. As of April 28, 2012, the Company was in compliance with all such required covenants, and the Company had not borrowed any funds under the credit facility.

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(Unaudited)

The Company may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $2.0 billion and/or extend the expiration date of the credit facility up to February 17, 2019.

This credit facility replaces the Company s prior credit facility that was entered into on August 17, 2007, which was terminated in connection with its entering into the new credit facility.

11. Derivative Instruments
(a) Summary of Derivative Instruments

The Company uses derivative instruments primarily to manage exposures to foreign currency exchange rate, interest rate, and equity price risks. The Company s primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates, interest rates, and equity prices. The Company s derivatives expose it to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company does, however, seek to mitigate such risks by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counterparties.

The fair values of the Company s derivative instruments and the line items on the Consolidated Balance Sheets to which they were recorded are summarized as follows (in millions):

	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
	Balance Sheet Line Item	April 28, 2012	July 30, 2011	Balance Sheet Line Item	April 28, 2012	July 30, 2011
Derivatives designated as hedging instruments:						
Foreign currency derivatives	Other current assets	$ 15	$ 67	Other current liabilities	$ 10	$ 12
Interest rate derivatives	Other assets	206	146	Other long-term liabilities		
Total		$ 221	$ 213		$ 10	$ 12
Derivatives not designated as hedging instruments:						
Foreign currency derivatives	Other current assets	$ 12	$ 7	Other current liabilities	$ 12	$ 12
Equity derivatives	Other assets	1	2	Other long-term liabilities		
Total		13	9		12	12
Total		$ 234	$ 222		$ 22	$ 24

The effects of the Company s cash flow hedging instruments on other comprehensive income (OCI) and the Consolidated Statements of Operations are summarized as follows (in millions):

Three Months Ended Derivatives Designated as Cash Flow Hedging Instruments	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES (EFFECTIVE PORTION) April 28, 2012	April 30, 2011	Line Item in Statements of Operations	GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME (EFFECTIVE PORTION) April 28, 2012	April 30, 2011
	$000,000	$000,000	$000,000	$000,000	$000,000
Foreign currency derivatives	$ 11	$ 51	Operating expenses	$ (15)	$ 28
			Cost of sales-service	(4)	5
Interest rate derivatives			Interest expense	1	1
Total	$ 11	$ 51		$ (18)	$ 34

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	$000,000,00	$000,000,00	$000,000,00	$000,000,00	$000,000,00
Nine Months Ended	**GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES (EFFECTIVE PORTION)**			**GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME (EFFECTIVE PORTION)**	
Derivatives Designated as Cash Flow Hedging Instruments	**April 28, 2012**	**April 30, 2011**	**Line Item in Statements of Operations**	**April 28, 2012**	**April 30, 2011**
Foreign currency derivatives	$ (83)	$ 96	Operating expenses	$ (37)	$ 51
			Cost of sales-service	(8)	9
Interest rate derivatives			Interest expense	1	1
Total	$ (83)	$ 96		$ (44)	$ 61

During the three and nine months ended April 28, 2012 and April 30, 2011, the amounts recognized in earnings on derivative instruments designated as cash flow hedges related to the ineffective portion were not material, and the Company did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. As of April 28, 2012, the Company estimates that approximately $21 million of net derivative losses related to its cash flow hedges included in AOCI will be reclassified into earnings within the next 12 months.

The effect on the Consolidated Statements of Operations of derivative instruments designated as fair value hedges and the underlying hedged items is summarized as follows (in millions):

Three Months Ended Derivatives Designated as		**GAINS (LOSSES) ON DERIVATIVE INSTRUMENTS**		**GAINS (LOSSES) RELATED TO HEDGED ITEMS**	
Fair Value Hedging Instruments	**Line Item in Statements of Operations**	**April 28, 2012**	**April 30, 2011**	**April 28, 2012**	**April 30, 2011**
Interest rate derivatives	Interest expense	$ (16)	$ 26	$ 16	$ (27)

Nine Months Ended Derivatives Designated as		**GAINS (LOSSES) ON DERIVATIVE INSTRUMENTS**		**GAINS (LOSSES) RELATED TO HEDGED ITEMS**	
Fair Value Hedging Instruments	**Line Item in Statements of Operations**	**April 28, 2012**	**April 30, 2011**	**April 28, 2012**	**April 30, 2011**
Interest rate derivatives	Interest expense	$ 60	$ 3	$ (62)	$ (4)

The Company did not exclude, from the assessment of hedge effectiveness in the preceding tables, any component of the changes in fair value of the derivative instruments designated as fair value hedges.

The effect on the Consolidated Statements of Operations of derivative instruments not designated as hedges is summarized as follows (in millions):

Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) FOR THE THREE MONTHS ENDED April 28, 2012	GAINS (LOSSES) FOR THE THREE MONTHS ENDED April 30, 2011	GAINS (LOSSES) FOR THE NINE MONTHS ENDED April 28, 2012	GAINS (LOSSES) FOR THE NINE MONTHS ENDED April 30, 2011
Foreign currency derivatives	Other income, net	$ 20	$ 114	$ (125)	$ 244
Total return swaps-deferred compensation	Cost of sales	1		4	
	Operating expenses	6	13	(4)	37
Equity derivatives	Other income, net	7	8	(4)	16
Total		$ 34	$ 135	$ (129)	$ 297

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The notional amounts of the Company s outstanding derivatives are summarized as follows (in millions):

	April 28, 2012	July 30, 2011
Derivatives designated as hedging instruments:		
Foreign currency derivatives cash flow hedges	$ 1,550	$ 3,433
Interest rate derivatives	4,250	4,250
Net investment hedging instruments	66	73
Derivatives not designated as hedging instruments:		
Foreign currency derivatives	4,839	4,565
Total return swaps- deferred compensation	278	262
Total	$ 10,983	$ 12,583

(b) Foreign Currency Exchange Risk

The Company conducts business globally in numerous currencies. Therefore, it is exposed to adverse movements in foreign currency exchange rates. To limit the exposure related to foreign currency changes, the Company enters into foreign currency contracts. The Company does not enter into such contracts for trading purposes.

The Company hedges forecasted foreign currency transactions related to certain operating expenses and service cost of sales with currency options and forward contracts. These currency option and forward contracts, designated as cash flow hedges, generally have maturities of less than 18 months. The Company assesses effectiveness based on changes in total fair value of the derivatives. The effective portion of the derivative instrument s gain or loss is initially reported as a component of accumulated other comprehensive income (AOCI) and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion, if any, of the gain or loss is reported in earnings immediately. During the periods presented, the Company did not discontinue any cash flow hedges for which it was probable that a forecasted transaction would not occur.

The Company enters into foreign exchange forward and option contracts to reduce the short-term effects of foreign currency fluctuations on assets and liabilities such as foreign currency receivables, including long-term customer financings, investments, and payables. These derivatives are not designated as hedging instruments. Gains and losses on the contracts are included in other income, net, and substantially offset foreign exchange gains and losses from the remeasurement of intercompany balances or other current assets, investments, or liabilities denominated in currencies other than the functional currency of the reporting entity.

The Company hedges certain net investments in its foreign subsidiaries with forward contracts, which generally have maturities of up to six months. The Company recognized losses of $6 million in OCI for the effective portion of its net investment hedges for the nine months ended April 28, 2012 and there were no such gains or loses for the three months ended April 28, 2012. Such losses for the nine months ended April 30, 2011 were $9 million.

(c) Interest Rate Risk

Interest Rate Derivatives, Investments The Company s primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. To realize these objectives, the Company may utilize interest rate swaps or other derivatives designated as fair value or cash flow hedges. As of April 28, 2012 and July 30, 2011 the Company did not have any outstanding interest rate derivatives related to its fixed income securities.

Interest Rate Derivatives Designated as Fair Value Hedge, Long-Term Debt In fiscal 2011, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that were issued in March 2011 and are due in 2014 and 2017. In fiscal 2010, the Company entered into interest rate swaps designated as fair value hedges for a portion of senior fixed-rate notes that were issued in 2006 and are due in 2016. Under these interest rate swaps, the Company receives fixed-rate interest payments and makes interest payments based on LIBOR plus a fixed number of basis points. The effect of such swaps is to convert the fixed interest rates of the senior fixed-rate notes to floating interest rates based on LIBOR. The gains and losses related to changes in the fair value of the interest rate swaps are included in interest expense and substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. The fair value of the interest rate swaps was reflected in other assets.

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(d) Equity Price Risk

The Company may hold equity securities for strategic purposes or to diversify its overall investment portfolio. The publicly traded equity securities in the Company s portfolio are subject to price risk. To manage its exposure to changes in the fair value of certain equity securities, the Company may enter into equity derivatives that are designated as fair value hedges. The changes in the value of the hedging instruments are included in other income, net, and offset the change in the fair value of the underlying hedged investment. In addition, the Company periodically manages the risk of its investment portfolio by entering into equity derivatives that are not designated as accounting hedges. The changes in the fair value of these derivatives were also included in other income, net. The Company did not have any equity derivatives outstanding related to its investment portfolio at April 28, 2012 and July 30, 2011.

The Company is also exposed to variability in compensation charges related to certain deferred compensation obligations to employees. Although not designated as accounting hedges, the Company utilizes derivatives such as total return swaps to economically hedge this exposure.

(e) Credit-Risk-Related Contingent Features

Certain derivative instruments are executed under agreements that have provisions requiring the Company and the counterparty to maintain a specified credit rating from certain credit rating agencies. If the Company s or the counterparty s credit rating falls below a specified credit rating, either party has the right to request collateral on the derivatives net liability position. Such provisions did not affect the Company s financial position as of April 28, 2012 and July 30, 2011.

12. Commitments and Contingencies

(a) Operating Leases

The Company leases office space in several U.S. locations. Outside the United States, larger leased sites include sites in Australia, Belgium, China, Germany, India, Israel, Italy, Japan, Norway, and the United Kingdom. The Company also leases equipment and vehicles. Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of April 28, 2012 are as follows (in millions):

Fiscal Year	Amount
2012 (remaining three months)	$ 94
2013	311
2014	241
2015	198
2016	110
Thereafter	353
Total	$ 1,307

(b) Purchase Commitments with Contract Manufacturers and Suppliers

The Company purchases components from a variety of suppliers and uses several contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by the Company or that establish the parameters defining the Company s requirements. A significant portion of the Company s reported purchase commitments arising from these agreements consists of firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule, and adjust the Company s requirements based on its business needs prior to firm orders being placed. As of April 28, 2012 and July 30, 2011, the Company had total purchase commitments for inventory of $4,369 million and $4,313 million, respectively.

The Company records a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of its future demand forecasts consistent with the valuation of the Company s excess and obsolete inventory. As of April 28, 2012 and July 30, 2011, the liability for these purchase commitments was $173 million and $168 million, respectively, and was included in other current liabilities.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(c) Other Commitments

In connection with the Company s business combinations and asset purchases, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or the continued employment with the Company of certain employees of the acquired entities. The Company recognized such compensation expense of $12 million and $18 million during the three months ended April 28, 2012 and April 30, 2011, respectively and $40 million and $113 million during the nine months ended April 28, 2012 and April 30, 2011, respectively. As of April 28, 2012, the Company estimated that future compensation expense and contingent consideration of up to $786 million may be required to be recognized pursuant to the applicable business combination and asset purchase agreements, which included the $750 million milestone payments related to Insieme as discussed below.

The Company also has certain funding commitments, primarily related to its investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones and some of which are required to be funded on demand. The funding commitments were $136 million and $192 million as of April 28, 2012 and July 30, 2011, respectively.

(d) Variable Interest Entities

In the ordinary course of business, the Company has investments in privately held companies and provides financing to certain customers. These privately held companies and customers may be considered to be variable interest entities. The Company evaluates on an ongoing basis its investments in these privately held companies and its customer financings, and it has determined that as of April 28, 2012 there were no material unconsolidated variable interest entities.

VCE Joint Venture VCE is a joint venture that the Company formed in fiscal 2010 with EMC Corporation (EMC), with investments from VMware, Inc. (VMware) and Intel Corporation. VCE helps organizations leverage best-in-class technologies and disciplines from Cisco, EMC, and VMware to enable the transformation to cloud computing.

As of April 28, 2012, the Company s cumulative gross investment in VCE was approximately $322 million, inclusive of accrued interest, and its ownership percentage was approximately 35%. During the nine months ended April 28, 2012, the Company invested approximately $211 million in VCE. The Company accounts for its investment in VCE under the equity method, and accordingly its carrying value in VCE as of April 28, 2012 was $123 million, reflecting its cumulative share of VCE s losses, which were included in other income, net. Over the next 12 months, as VCE scales its operations, the Company expects that it will make additional investments in VCE and may incur additional losses proportionate with the Company s share.

From time to time, EMC and Cisco may enter into guarantee agreements on behalf of VCE to indemnify third parties, such as customers, for monetary damages. Such guarantees were not material as of April 28, 2012.

Insieme Networks, Inc. In the third quarter of fiscal 2012, the Company made an investment in Insieme Networks, Inc. (Insieme), an early-stage company focused on research and development in the data center market. This investment includes $100 million of funding and a license to certain of the Company s technology. As a result of this investment, the Company owns approximately 90% of Insieme and has consolidated the results of Insieme in its Consolidated Financial Statements beginning in the third quarter of fiscal 2012. The net loss attributable to the noncontrolling interests was not presented separately in the Consolidated Statements of Operations due to the amount being immaterial.

In connection with this investment, the Company and Insieme have entered into an option agreement that provides the Company with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders can require the Company to purchase their shares upon the occurrence of certain events. If the Company acquires the remaining interests of Insieme, the noncontrolling interest holders are eligible to receive two milestone payments, which will be determined using agreed-upon formulas based on revenue for certain of Insieme s products. The Company will begin recognizing the amounts due under the milestone payments when it is determined that such payments are probable of being earned, which may be in fiscal 2014. When such a determination is made, the milestone payments will then be recorded as compensation expense by the Company based on an estimate of the fair value of the amounts probable of being earned, pursuant to a vesting schedule. Subsequent changes to the fair value of the amounts probable of being earned and the continued vesting will result in adjustments to the recorded compensation expense. The maximum amount that could be recorded as compensation expense by the Company is approximately $750 million. The milestone payments, if earned, are expected to be paid primarily during fiscal 2016 and fiscal 2017.

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(e) Product Warranties and Guarantees

The following table summarizes the activity related to product warranty liability during the nine months ended April 28, 2012 and April 30, 2011 (in millions):

	Nine Months Ended	
	April 28, 2012	April 30, 2011
Balance at beginning of period	$ 342	$ 360
Provision for warranties issued	474	330
Payments	(426)	(356)
Balance at end of period	$ 390	$ 334

The Company accrues for warranty costs as part of its cost of sales based on associated material product costs, labor costs for technical support staff, and associated overhead. The Company s products are generally covered by a warranty for periods ranging from 90 days to five years, and for some products the Company provides a limited lifetime warranty.

In the normal course of business, the Company indemnifies other parties, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other parties harmless against losses arising from a breach of representations or covenants or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company s Amended and Restated Bylaws contain similar indemnification obligations to the Company s agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the Company s limited history with prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on the Company s operating results, financial position, or cash flows.

The Company also provides financing guarantees, which are generally for various third-party financing arrangements to channel partners and other end-user customers. See Note 7. The Company s other guarantee arrangements as of April 28, 2012 and July 30, 2011 that were subject to recognition and disclosure requirements were not material.

(f) Legal Proceedings

Brazilian authorities have investigated the Company s Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of the Company s products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against the Company s Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes and related penalties. In addition to claims asserted during prior fiscal years by Brazilian federal tax authorities, tax authorities from the Brazilian state of Sao Paulo asserted similar claims on the same legal basis during the second quarter of fiscal 2011.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2007 and the asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregated to approximately $429 million for the alleged evasion of import taxes, approximately $1.0 billion for interest, and approximately $2.0 billion for various penalties, all determined using an exchange rate as of April 28, 2012. The Company has completed a thorough review of the matter and believes the asserted tax claims against it are without merit, and the Company is defending the claims vigorously. While the

Company believes there is no legal basis for its alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, the Company is unable to determine the likelihood of an unfavorable outcome against it and is unable to reasonably estimate a range of loss, if any. The Company does not expect a final judicial determination for several years.

On March 31, 2011 and April 12, 2011, purported shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The lawsuits have been consolidated, and an amended consolidated complaint was filed on December 2, 2011. The consolidated action is purportedly brought on behalf of purchasers of the Company s publicly traded securities between February 3, 2010 and May 11, 2011. Plaintiffs allege that defendants made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. The Company believes the claims are without merit and intends to defend the actions vigorously. While the Company believes there is no legal basis for liability, due to the uncertainty surrounding the litigation process, the Company is unable to reasonably estimate a range of loss, if any, at this time.

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(Unaudited)

Beginning on April 8, 2011, a number of purported shareholder derivative lawsuits were filed in both the United States District Court for the Northern District of California and the California Superior Court for the County of Santa Clara against the Company s Board of Directors and several of its officers. The federal lawsuits have been consolidated in the Northern District of California. Plaintiffs in both the federal and state derivative actions allege that the Board allowed certain officers to make allegedly false and misleading statements. The complaint includes claims for violation of the federal securities laws, breach of fiduciary duties, waste of corporate assets, unjust enrichment, and violations of the California Corporations Code. The complaint seeks compensatory damages, disgorgement, and other relief.

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

13. Shareholders Equity

(a) Stock Repurchase Program

In September 2001, the Company s Board of Directors authorized a stock repurchase program. As of April 28, 2012, the Company s Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program, and the remaining authorized repurchase amount was $7.7 billion with no termination date. A summary of the stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted-Average Price per Share	Amount Repurchased
Cumulative balance at July 30, 2011	3,478	$ 20.64	$ 71,773
Repurchase of common stock under the stock repurchase program	153	16.66	2,560
Cumulative balance at April 28, 2012	3,631	$ 20.47	$ 74,333

The purchase price for the shares of the Company s stock repurchased is reflected as a reduction to shareholders equity. The Company is required to allocate the purchase price of the repurchased shares as (i) a reduction to retained earnings and (ii) a reduction of common stock and additional paid-in capital. Issuance of common stock and the tax benefit related to employee stock incentive plans are recorded as an increase to common stock and additional paid-in capital.

(b) Cash Dividends on Shares of Common Stock

During the nine months ended April 28, 2012, the Company paid cash dividends of $0.20 per common share, or $1.1 billion, on the Company s outstanding common stock.

(c) Other Repurchases of Common Stock

For the nine months ended April 28, 2012 and April 30, 2011, the Company repurchased approximately 10 million and 8 million shares of common stock, or $160 million and $152 million respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(d) Comprehensive Income

The components of comprehensive income for the three and nine months ended April 28, 2012 and April 30, 2011 are as follows (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net income	$ 2,165	$ 1,807	$ 6,124	$ 5,258
Other comprehensive income:				
Change in unrealized gains and losses on investments, net of tax benefit (expense) of $(55) and $(12), for the three and nine months ended April 28, 2012, respectively, and $(34) and $(81) for the corresponding periods of fiscal 2011, respectively	80	62	7	178
Change in derivative instruments, net of tax (expense) of $(1) for the three and nine months ended April 30, 2011	29	18	(39)	37
Change in cumulative translation adjustment and other, net of tax benefit (expense) of $(1) and $30, for the three and nine months ended April 28, 2012, respectively, and $(17) and $(32) for the corresponding periods of fiscal 2011, respectively	21	249	(296)	494
Other comprehensive income (loss), net of tax	130	329	(328)	709
Comprehensive income	2,295	2,136	5,796	5,967
Comprehensive (income) loss attributable to noncontrolling interests	(2)	2	12	(25)
Comprehensive income attributable to Cisco Systems, Inc.	$ 2,293	$ 2,138	$ 5,808	$ 5,942

The components of AOCI, net of tax, are summarized as follows (in millions):

	April 28, 2012	July 30, 2011
Net unrealized gains on investments	$ 506	$ 487
Net unrealized (losses) gains on derivative instruments	(33)	6
Cumulative translation adjustment and other	505	801
Total	$ 978	$ 1,294

14. Employee Stock Benefit Plans

(a) Employee Stock Incentive Plans

Stock Incentive Plan Program Description As of April 28, 2012, the Company had five stock incentive plans: the 2005 Stock Incentive Plan (the 2005 Plan); the 1996 Stock Incentive Plan (the 1996 Plan); the 1997 Supplemental Stock Incentive Plan (the Supplemental Plan); the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan (the SA Acquisition Plan); and the Cisco Systems, Inc. WebEx Acquisition Long-Term

Incentive Plan (the WebEx Acquisition Plan). In addition, the Company has, in connection with the acquisitions of various companies, assumed the share-based awards granted under stock incentive plans of the acquired companies or issued share-based awards in replacement thereof. Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors. Since the inception of the stock incentive plans, the Company has granted share-based awards to a significant percentage of its employees, and the majority has been granted to employees below the vice president level. The Company s primary stock incentive plans are summarized as follows:

2005 Plan As amended on November 15, 2007, the maximum number of shares issuable under the 2005 Plan over its term is 559 million shares plus the amount of any shares underlying awards outstanding on November 15, 2007 under the 1996 Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that are forfeited or are terminated for any other reason before being exercised or settled. If any awards granted under the 2005 Plan are forfeited or are terminated for any other reason before being exercised or settled, then the shares underlying the awards will again be available under the 2005 Plan.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Pursuant to an amendment approved by the Company s shareholders on November 12, 2009, the number of shares available for issuance under the 2005 Plan was reduced by 1.5 shares for each share awarded as a stock grant or a stock unit, and any shares underlying awards outstanding under the 1996 Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that expire unexercised at the end of their maximum terms become available for reissuance under the 2005 Plan. The 2005 Plan permits the granting of stock options, restricted stock, restricted stock units (RSU), the vesting of which may be performance-based or market-based along with the requisite service requirement, and stock appreciation rights to employees (including employee directors and officers), consultants of the Company and its subsidiaries and affiliates, and non-employee directors of the Company.

Stock options and stock appreciation rights granted under the 2005 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and prior to November 12, 2009 have an expiration date no later than nine years from the grant date. The expiration date for stock options and stock appreciation rights granted subsequent to the amendment approved on November 12, 2009 shall be no later than 10 years from the grant date. The stock options will generally 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. Time-based stock grants and time-based RSUs will generally vest with respect to 20% or 25% of the shares or share units covered by the grant on each of the first through fifth or fourth anniversaries of the date of the grant, respectively.

The Compensation and Management Development Committee of the Board of Directors has the discretion to use different vesting schedules. Stock appreciation rights may be awarded in combination with stock options or stock grants, and such awards shall provide that the stock appreciation rights will not be exercisable unless the related stock options or stock grants are forfeited. Stock grants may be awarded in combination with non-statutory stock options, and such awards may provide that the stock grants will be forfeited in the event that the related non-statutory stock options are exercised.

1996 Plan The 1996 Plan expired on December 31, 2006, and the Company can no longer make equity awards under the 1996 Plan. The maximum number of shares issuable over the term of the 1996 Plan was 2.5 billion shares. Stock options granted under the 1996 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and expire no later than nine years from the grant date. The stock options generally 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. In addition, the Board of Directors, or other committees administering the plan, have the discretion to use a different vesting schedule and have done so from time to time.

Supplemental Plan The Supplemental Plan expired on December 31, 2007, and the Company can no longer make equity awards under the Supplemental Plan. Officers and members of the Company s Board of Directors were not eligible to participate in the Supplemental Plan. Nine million shares were reserved for issuance under the Supplemental Plan.

Acquisition Plans In connection with the Company s acquisitions of Scientific-Atlanta, Inc. (Scientific-Atlanta) and WebEx Communications, Inc. (WebEx), the Company adopted the SA Acquisition Plan and the WebEx Acquisition Plan, respectively, each effective upon completion of the applicable acquisition. These plans constitute assumptions, amendments, restatements, and renamings of the 2003 Long-Term Incentive Plan of Scientific-Atlanta and the WebEx Communications, Inc. Amended and Restated 2000 Stock Incentive Plan, respectively. The plans permit the grant of stock options, stock, stock units, and stock appreciation rights to certain employees of the Company and its subsidiaries and affiliates who had been employed by Scientific-Atlanta or its subsidiaries or WebEx or its subsidiaries, as applicable. As a result of the shareholder approval of the amendment and extension of the 2005 Plan, as of November 15, 2007, the Company will no longer make stock option grants or direct share issuances under either the SA Acquisition Plan or the WebEx Acquisition Plan.

(b) Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan, which includes its subplan, the International Employee Stock Purchase Plan (together, the Purchase Plan), under which 471.4 million shares of the Company s common stock have been reserved for issuance as of April 28, 2012. Eligible employees are offered shares through a 24-month offering period, which consists of four consecutive 6-month purchase periods. Employees may purchase a limited number of shares of the Company s stock at a discount of up to 15% of the lesser of the market value at the beginning of the offering period or the end of each 6-month purchase period. The Purchase Plan is scheduled to terminate on January 3, 2020. The Company issued 18 million and 17 million shares under the Purchase Plan during the nine months ended April 28, 2012 and April 30, 2011, respectively. As of April 28, 2012, 104 million shares were available for issuance under the Purchase Plan.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(c) Summary of Share-Based Compensation Expense

Share-based compensation expense consists primarily of expenses for stock options, stock purchase rights, restricted stock, and restricted stock units granted to employees. The following table summarizes share-based compensation expense (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Cost of sales product	$ 12	$ 16	$ 39	$ 47
Cost of sales service	39	44	116	135
Share-based compensation expense in cost of sales	51	60	155	182
Research and development	97	120	297	373
Sales and marketing	138	160	429	491
General and administrative	51	60	153	191
Restructuring and other charges			(2)	
Share-based compensation expense in operating expenses	286	340	877	1,055
Total share-based compensation expense	$ 337	$ 400	$ 1,032	$ 1,237

As of April 28, 2012, total compensation cost related to unvested share-based awards not yet recognized was $2.8 billion, which is expected to be recognized over approximately 2.2 years on a weighted-average basis. The income tax benefit for share-based compensation expense was $88 million and $271 million for the three and nine months ended April 28, 2012, respectively, and $107 million and $335 million for the three and nine months ended April 30, 2011, respectively.

The fair value of restricted stock units was measured based on the grant-date share price adjusted for expected dividend yield. The Company estimates the fair value of employee stock options on the date of grant using a lattice-binomial model. The lattice-binomial model is more capable than the Black-Scholes model of incorporating the features of the Company s employee stock options, such as the vesting provisions and various restrictions, including restrictions on transfer and hedging, among others, and the fact that options are often exercised prior to their contractual maturity. The use of the lattice-binomial model also requires extensive actual employee exercise behavior data for the relative probability estimation purpose and a number of complex assumptions, including expected volatility, risk-free interest rate, expected dividends, kurtosis, and skewness.

The Company uses third-party analyses to assist in developing the assumptions used in, as well as calibrating, its lattice-binomial model. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards. The Company s determination of the fair value of share-based payment awards is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company s employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value or be indicative of the fair value that would be observed in a willing buyer/willing seller market for the Company s employee stock options.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(d) Share-Based Awards Available for Grant

A summary of share-based awards available for grant is as follows (in millions):

	Share-Based Awards Available for Grant
BALANCE AT JULY 31, 2010	295
Restricted stock, stock units, and other share-based awards granted and assumed	(84)
Share-based awards canceled/forfeited/expired	42
Additional shares reserved	2
BALANCE AT JULY 30, 2011	255
Restricted stock, stock units, and other share-based awards granted and assumed	(77)
Share-based awards canceled/forfeited/expired	49
Other	(4)
BALANCE AT APRIL 28, 2012	223

As reflected in the preceding table, for each share awarded as restricted stock or subject to a restricted stock unit award under the 2005 Plan, an equivalent of 1.5 shares was deducted from the available share-based award balance. For restricted stock units that were awarded with vesting contingent upon the achievement of future financial performance or market-based metrics, the maximum awards that can be achieved upon full vesting of such awards were reflected in the preceding table.

(e) Restricted Stock and Stock Unit Awards

A summary of the restricted stock and stock unit activity is as follows (in millions, except per-share amounts):

	Restricted Stock/ Stock Units	Weighted-Average Grant-Date Fair Value per Share	Vest-Date Fair Value in Aggregate
BALANCE AT JULY 31, 2010	97	$ 22.35	
Granted and assumed	56	20.62	
Vested	(27)	22.54	$ 529
Canceled/forfeited	(10)	22.04	
BALANCE AT JULY 30, 2011	116	21.50	
Granted and assumed	52	17.78	
Vested	(29)	22.59	$ 470
Canceled/forfeited	(15)	20.38	

BALANCE AT APRIL 28, 2012	124	$	19.81

Prior to the initial declaration of a quarterly cash dividend on March 17, 2011, the fair value of time-based restricted stock units was measured based on the grant date share price reduced by the present value of the dividend using an expected dividend yield of 0%, as the Company did not historically pay cash dividends on its common stock. For awards granted on or subsequent to March 17, 2011, the Company used an annualized dividend yield based on the per-share dividends declared by its Board of Directors. For the awards granted during the first nine months of fiscal 2012, the annualized dividend yield was 1.6%.

Approximately 2 million of the restricted stock and stock unit awards granted during the first nine months of fiscal 2012 are contingent on the achievement of financial performance metrics or market-based returns. The Company estimates the fair value of market-based restricted stock units using a Monte Carlo simulation model on the date of grant.

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(f) Stock Option Awards

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

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 31, 2010	732	$ 21.39
Exercised	(80)	16.55
Canceled/forfeited/expired	(31)	25.91
BALANCE AT JULY 30, 2011	621	21.79
Assumed from acquisitions	1	2.14
Exercised	(64)	13.52
Canceled/forfeited/expired	(25)	24.02
BALANCE AT APRIL 28, 2012	533	$ 22.64

The following table summarizes significant ranges of outstanding and exercisable stock options as of April 28, 2012 (in millions, except years and per-share amounts):

	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
$ 0.01 15.00	11	4.29	$ 6.86	$ 144	10	$ 7.08	$ 127
15.01 18.00	86	2.32	17.76	190	86	17.77	189
18.01 20.00	154	1.16	19.29	106	154	19.29	106
20.01 25.00	146	3.12	22.75		143	22.76	
25.01 35.00	136	4.33	30.65		126	30.65	
Total	533	2.76	$ 22.64	$ 440	519	$ 22.53	$ 422

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company s closing stock price of $19.98 as of April 27, 2012, which would have been received by the option holders had those option holders exercised their stock options as of that date. The total number of in-the-money stock options exercisable as of April 28, 2012 was 249 million. As of July 30, 2011, 575 million outstanding stock options were exercisable, and the weighted-average exercise price was $21.37.

15. Income Taxes

The following table provides details of income taxes (in millions, except percentages):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Income before provision for income taxes	$ 2,779	$ 2,203	$ 7,773	$ 6,358
Provision for income taxes	$ 614	$ 396	$ 1,649	$ 1,100
Effective tax rate	22.1%	18.0%	21.2%	17.3%

As of April 28, 2012, the Company had $3.0 billion of unrecognized tax benefits, of which $2.6 billion, if recognized, would favorably impact the effective tax rate. The Company regularly engages in discussions and negotiations with tax authorities regarding its tax matters in various jurisdictions. It is reasonably possible that certain of such federal, foreign, and state tax matters may be concluded in the next 12 months. Specific positions that may be resolved include issues involving transfer pricing and various other matters. The Company estimates that the unrecognized tax benefits at April 28, 2012 could be reduced by approximately $0.4 billion in the next 12 months.

CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

16. Segment Information and Major Customers

(a) Net Sales and Gross Margin by Segment

The Company conducts business globally and is primarily managed on a geographic basis consisting of three geographic segments: the Americas; EMEA; and APJC. In fiscal 2011, the Company was organized into four geographic segments, which consisted of United States and Canada, European Markets, Emerging Markets, and Asia Pacific Markets. As a result of this geographic segment change effective in the first quarter of fiscal 2012, countries within the former Emerging Markets segment were consolidated into either EMEA or the Americas segment depending on their respective geographic locations. The Company has reclassified the geographic segment data for the prior period to conform to the current period s presentation.

The Company s management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to a geographic segment based on the ordering location of the customer. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its geographic segments in this internal management system because management does not include the information in its measurement of the performance of the operating segments. In addition, the Company does not allocate amortization of acquisition-related intangible assets, share-based compensation expense, charges related to asset impairments and restructurings, and certain other charges to the gross margin for each segment because management does not include this information in its measurement of the performance of the operating segments.

Summarized financial information by segment for the three and nine months ended April 28, 2012 and April 30, 2011 is based on the Company s internal management system and as utilized by the Company s Chief Operating Decision Maker (CODM) is as follows (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net sales:				
Americas	$ 6,466	$ 6,265	$ 19,606	$ 18,592
EMEA	3,160	3,020	9,255	8,650
APJC	1,962	1,581	5,510	4,781
Total	$ 11,588	$ 10,866	$ 34,371	$ 32,023
Gross margin:				
Americas	$ 4,053	$ 3,988	$ 12,319	$ 11,759
EMEA	2,019	1,966	5,868	5,589
APJC	1,242	987	3,342	2,996
Segment total	7,314	6,941	21,529	20,344
Unallocated corporate items	(145)	(282)	(405)	(669)
Total	$ 7,169	$ 6,659	$ 21,124	$ 19,675

Net sales in the United States, which is included in the Americas, were $5.5 billion and $5.3 billion for the three months ended April 28, 2012 and April 30, 2011, respectively, and were $16.6 billion and $16.0 billion for the nine months ended April 28, 2012 and April 30, 2011, respectively. Unallocated corporate items, which include the effects of amortization and impairment of acquisition-related intangible assets, share-based compensation expense, and charges related to asset impairments and restructurings, were not allocated to individual segments.

(b) Net Sales for Groups of Similar Products and Services

The Company designs, manufactures, and sells Internet Protocol (IP)-based networking and other products related to the communications and IT industry and provides services associated with these products and their use. The Company formerly grouped its products and technologies into categories of Switches, Routers, New Products, and Other. Effective in the first quarter of fiscal 2012, the Company re-categorized its products and technologies into the following categories: Switching, Next Generation Network (NGN) Routing, Collaboration, Service Provider Video, Wireless, Security, Data Center, and Other Products. These products, primarily integrated by Cisco IOS Software, link geographically dispersed local-area networks (LANs), metropolitan-area networks (MANs) and wide-area networks (WANs).

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net sales:				
Switching	$ 3,644	$ 3,480	$ 10,926	$ 10,510
NGN Routing	2,143	2,150	6,328	6,246
Collaboration	1,007	1,008	3,147	2,937
Service Provider Video	1,002	898	2,896	2,501
Wireless	425	353	1,205	1,022
Security	345	316	999	876
Data Center	291	173	883	475
Other	249	291	792	1,038
Product	9,106	8,669	27,176	25,605
Service	2,482	2,197	7,195	6,418
Total	$ 11,588	$ 10,866	$ 34,371	$ 32,023

(c) Additional Segment Information

The majority of the Company s assets, excluding cash and cash equivalents and investments, as of April 28, 2012 and July 30, 2011 were attributable to its U.S. operations. The Company s total cash and cash equivalents and investments held by various foreign subsidiaries was $42.3 billion and $39.8 billion as of April 28, 2012 and July 30, 2011, respectively, and the remaining $6.1 billion and $4.8 billion at the respective period ends was available in the United States.

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

	April 28, 2012	July 30, 2011
Property and equipment, net:		
United States	$ 3,060	$ 3,284
International	574	632
Total	$ 3,634	$ 3,916

17. Net Income per Share

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

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net income	$ 2,165	$ 1,807	$ 6,124	$ 5,258
Weighted-average shares basic	5,388	5,508	5,383	5,545
Effect of dilutive potential common shares	68	29	35	51
Weighted-average shares diluted	5,456	5,537	5,418	5,596
Net income per share basic	$ 0.40	$ 0.33	$ 1.14	$ 0.95
Net income per share diluted	$ 0.40	$ 0.33	$ 1.13	$ 0.94
Antidilutive employee share-based awards, excluded	295	516	538	367

Employee equity share options, unvested shares, and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options, unvested restricted stock and restricted stock units. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are collectively assumed to be used to repurchase shares.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including 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 subject to the safe harbors created under the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements 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, continues, endeavors, strives, may, vari similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are 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, including those identified below, under Part II, Item 1A. Risk Factors, and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

Overview

A summary of our results is as follows, for further details see our Results of Operations on page 49 (in millions, except percentages and per-share amounts):

	Three Months Ended			Nine Months Ended		
	April 28, 2012	**April 30, 2011**	**Variance**	**April 28, 2012**	**April 30, 2011**	**Variance**
Net sales	$ 11,588	$ 10,866	6.6 %	$ 34,371	$ 32,023	7.3 %
Gross margin percentage	61.9%	61.3%	0.6 pts.	61.5%	61.4%	0.1 pts.
Research and development	$ 1,358	$ 1,430	(5.0) %	$ 4,072	4,339	(6.2) %
Sales and marketing	$ 2,383	$ 2,446	(2.6) %	$ 7,230	7,292	(0.9) %
General and administrative	$ 562	$ 466	20.6 %	$ 1,611	1,376	17.1 %
Total R&D, sales and marketing, general and administrative	$ 4,303	$ 4,342	(0.9) %	$ 12,913	13,007	(0.7) %
Total as a percentage of revenue	37.1%	40.0%	(2.9) pts.	37.6%	40.6%	(3.0) pts.
Amortization of purchased intangible assets	$ 96	$ 103	(6.8) %	$ 292	419	(30.3) %
Restructuring and other charges	$ 20	$ 31	(35.5) %	$ 225	$ 31	625.8 %
Operating margin percentage	23.7%	20.1%	3.6 pts.	22.4%	19.4%	3.0 pts.
Income tax percentage	22.1%	18.0%	4.1 pts.	21.2%	17.3%	3.9 pts.
Net income	$ 2,165	$ 1,807	19.8 %	$ 6,124	$ 5,258	16.5 %
Net income as a percentage of revenue	18.7%	16.6%	2.1 pts.	17.8%	16.4%	1.4 pts.
Earnings per share diluted	$ 0.40	$ 0.33	21.2 %	$ 1.13	$ 0.94	20.2 %

Three Months Ended April 28, 2012 Compared with Three Months Ended April 30, 2011

Net sales increased 7%, with net product sales increasing by 5% and service revenue increasing by 13%. Total gross margin increased by 0.6 percentage points reflecting the continued positive effect of lower overall manufacturing costs, including benefits from value engineering. Our gross margin also benefited in the current period relative to the comparable fiscal 2011 period from the absence of significant restructuring charges related to our consumer business. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses collectively declined by 2.9 percentage points, and were down slightly in dollar terms due to the expense reductions we announced in fiscal 2011. Operating margin increased by 3.6 percentage points primarily as a result of our sales performance, improved gross margin, and expense management. Diluted earnings per share increased by 21% from the prior year period, primarily as a result of a 20% increase in net income and also, to a lesser degree, from a decline in our diluted share count.

We experienced another quarter of solid execution in the third quarter of fiscal 2012, as demonstrated by the 7% growth in net sales and 21% increase in earnings per share compared with the third quarter of fiscal 2011. Consistent with our goals, including growing profits faster than revenue, our third quarter of fiscal 2012 operating income, net income, and earnings per share each increased by a greater percentage than our net sales, as compared to the prior year period.

Our results reflect revenue growth across each of our geographic segments and customer markets. In particular, our APJC segment performed well, with year-over-year revenue growth of 24%, reflecting strength in both product and service revenue. From a customer market standpoint, this growth was led by strong service provider revenue, partially due to the completion of several large, multiyear projects in the region.

Most of our key areas experienced positive net sales growth on a year-over-year basis. Specifically, revenue grew in Switching, Services, Data Center, Service Provider Video, Wireless and Security. We believe this growth reflects the success we are experiencing with our technology architectures. Revenue was flat in both the NGN Routing and Collaboration product groups on a year over year basis. The flat sales of NGN Routing products reflected lower industrywide sales for routing products during the quarter and lower sales of our optical networking products. We believe the relative weakness for Collaboration is attributable to a number of factors, including market driven factors, pressure with regard to reduced spending from enterprise and public sector customers driven by the difficult macroeconomic environment, and our need to execute more effectively as we transition our sales strategy in this area.

We experienced solid performance in terms of both product and service gross margin. We are continuing to see relative stability in our product gross margin in particular due to continued benefits from value engineering and other cost savings. From a geographic segment perspective, gross margin improvement in our APJC segment offset lower gross margins in the Americas and EMEA segments. In our APJC segment, gross margin increased on a year-over-year basis due to lower discounts, product mix, lower overall manufacturing costs and volume. The gross margin performance in the segment was also partially due to the completion of the aforementioned large, multiyear projects. From a company-wide perspective, our core product areas of Switching and NGN Routing on a combined basis reflected continued gross margin stability.

We continue to monitor a variety of previously-disclosed business challenges, the negative impacts from a challenging global macroeconomic environment, including, specifically, continued challenges in the European economy, continued weakness in the public sector market, and conservative IT-related capital spending by our customers. While we achieved solid growth in the third quarter of fiscal 2012, we are seeing a hesitant global IT spending environment. In particular, the challenges we outlined in the second quarter of fiscal 2012 related to conservative IT-related capital spending and developments in Europe continued to impact our business momentum during the third quarter of fiscal 2012.

Nine Months Ended April 28, 2012 Compared with Nine Months Ended April 30, 2011

Net sales increased 7%, with net product sales increasing 6% and service revenue increasing 12%. Total gross margin increased by 0.1 percentage points primarily as a result of lower manufacturing costs, higher volume, lower restructuring charges, and lower amortization and impairment charges from purchased intangible assets, partially offset by higher sales discounts and unfavorable product pricing as well as product mix shifts. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses collectively declined by 3.0 percentage points due to the expense reductions we announced in fiscal 2011. Operating margin increased by 3.0 percentage points primarily as a result of our sales performance, improved gross margin and expense management. Diluted earnings per share increased by 20% from the prior year period, a result of both a 16% increase in net income and due to a decline in our diluted share count of 178 million shares.

Strategy and Focus Areas

We announced a plan in May 2011, which we began implementing in fiscal 2011 and expect to complete in fiscal 2012, to realign our sales, service and engineering organizations in order to simplify our operating model and focus on our five foundational priorities:

- Leadership in our core business (routing, switching, and associated services) which includes comprehensive security and mobility solutions
- Collaboration

- Data center virtualization and cloud

- Video

- Architectures for business transformation

We believe that focusing on these priorities will best position us to continue to expand our share of our customers information technology spending.

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We are currently undergoing product transitions in our core business including the introduction of next-generation products with higher price performance and architectural advantages compared with both our prior generation of products and the product offerings of our competitors. We believe that many of these product transitions are gaining momentum based on the strong year-over-year product revenue growth across these next-generation product families. We believe that our strategy and our ability to innovate and execute may enable us to improve our relative competitive position in many of our product areas even in uncertain or difficult business conditions and, therefore, may continue to provide us with long-term growth opportunities. However, we believe that these newly introduced products may continue to negatively impact product gross margins, which we are currently striving to address through various initiatives including value engineering, effective supply chain management, and delivering greater customer value through offers that include hardware, software, and services.

We continue to seek to capitalize on market transitions. Market transitions on which we are primarily focused include those related to the increased role of virtualization/the cloud, video, collaboration, networked mobility technologies and the transition from Internet Protocol Version 4 to Internet Protocol Version 6. For example, a market in which a significant market transition is underway is the enterprise data center market, where a transition to virtualization/the cloud is rapidly evolving. There is a continued growing awareness that intelligent networks are becoming the platform for productivity improvement and global competitiveness. We believe that disruption in the enterprise data center market is accelerating, due to changing technology trends such as the increasing adoption of virtualization, the rise in scalable processing, and the advent of cloud computing and cloud-based IT resource deployments and business models. These key terms are defined as follows:

Virtualization: refers to the process of aggregating the current siloed data center resources into unified, shared resource pools that can be dynamically delivered to applications on demand thus enabling the ability to move content and applications between devices and the network.

The cloud: refers to an information technology hosting and delivery system in which resources, such as servers or software applications, are no longer tethered to a user s physical infrastructure but instead are delivered to and consumed by the user on demand as an Internet-based service, whether singularly or with multiple other users simultaneously.

This virtualization and cloud-driven market transition in the enterprise data center market is being brought about through the convergence of networking, computing, storage, and software technologies. We are seeking to take advantage of this market transition through, among other things, our Cisco Unified Computing System platform and Cisco Nexus product families, which are designed to integrate the previously siloed technologies in the enterprise data center with a unified architecture. We are also seeking to capitalize on this market transition through the development of other cloud-based product and service offerings through which we intend to enable customers to develop and deploy their own cloud-based IT solutions, including software-as-a-service (SaaS) and other-as-a-service (XaaS) solutions.

The competitive landscape in the enterprise data center market is changing. Very large, well-financed, and aggressive competitors are each bringing their own new class of products to address this new market. We expect this competitive market trend to continue. With respect to this market, we believe the network will be the intersection of innovation through open systems and standards. We expect to see acquisitions, further industry consolidation, and new alliances among companies as they seek to serve the enterprise data center market. As we enter this next market phase, we expect that we will strengthen certain strategic alliances, compete more with certain strategic alliances and partners, and perhaps also encounter new competitors in our attempt to deliver the best solutions for our customers.

Other market transitions on which we are focusing particular attention include those related to the increased role of video, collaboration, and networked mobility technologies. The key market transitions relative to the convergence of video, collaboration, and networked mobility technologies, which we believe will drive productivity and growth in network loads, appear to be evolving even more quickly and more significantly than we had previously anticipated. Cisco TelePresence systems are one example of product offerings that have incorporated video, collaboration, and networked mobility technologies, as customers evolve their communications and business models. We are focused on simplifying and expanding the creation, distribution, and use of end-to-end video solutions for businesses and consumers.

We believe that the architectural approach that has served us well in the past in addressing market opportunities in the communications and IT industry will be adaptable to other markets. An example of a market where we aim to apply this approach is mobility, where growth of IP traffic on handheld devices is driving the need for more robust architectures, equipment and services in order to accommodate not only an increasing number of worldwide mobile device users, but also increased user demand for broadband-quality business network and consumer web applications to be delivered on such devices.

Three Months Ended April 28, 2012 Compared with Three Months Ended April 30, 2011

Net Sales

Net sales increased by 7%. Within the total sales growth, net product sales increased by 5% and service revenue increased by 13%. With regard to our geographic segment performance, on a year-over-year basis, net sales increased 3% in the Americas segment, 5% in our EMEA segment, and 24% in our APJC segment.

Customer market net product sales performance reflected increases across all markets. The service provider customer market experienced the largest percentage increase followed by the commercial, enterprise, and public sector markets.

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From a product perspective, we experienced a 5% increase in net product sales with specific increases in certain product categories as follows: 5% in Switching, 68% in Data Center, 12% in Service Provider Video, 20% in Wireless, and 9% in Security. In contrast, net product sales for NGN Routing and Collaboration were each flat year over year. The growth in Service revenues was experienced across both the technical support services category and advanced services category, with revenue increases of 10% and 23%, respectively.

Gross Margin

Our gross margin percentage increased by approximately 0.6 percentage points. Within this total gross margin change, product gross margin increased by 0.5 percentage points, while service gross margin increased by 0.5 percentage points. Our product gross margin benefited from the absence in the current period of significant restructuring charges related to our consumer business which occurred in the prior year period. After adjusting for this item, our individual product gross margins have reflected relative stability on a year-over-year basis.

Operating Expenses

Total operating expenses decreased by 1%. Research and development expenses decreased by 5%, sales and marketing expenses decreased by 3% and general and administrative expenses increased by approximately 21%. Operating expense as a percentage of revenue decreased by 3.1 percentage points, primarily as a result of our expense reduction efforts. Additionally, lower share-based compensation expense, and slightly lower restructuring charges and amortization of purchased intangibles assets contributed to the operating expense decline.

Other Key Financial Measures

The following is a summary of our other key financial measures for the third quarter of fiscal 2012:

We generated cash flows from operations of $3.0 billion and $8.4 billion during the third quarter and first nine months of fiscal 2012, respectively. Our cash and cash equivalents, together with our investments, were $48.4 billion at the end of the third quarter of fiscal 2012, compared with $44.6 billion at the end of fiscal 2011.

Our total deferred revenue at the end of the third quarter of fiscal 2012 was $12.6 billion, compared with $12.2 billion at the end of fiscal 2011.

We repurchased approximately 27 million shares of our common stock at an average price of $20.28 per share for an aggregate purchase price of $550 million during the third quarter of fiscal 2012. As of the end of the third quarter of fiscal 2012, the remaining authorized repurchase amount under the stock repurchase program was $7.7 billion with no termination date. We paid a cash dividend of $0.08 per share, or $432 million, and $0.20 per share, or $1.1 billion, for the third quarter and first nine months of fiscal 2012, respectively.

Days sales outstanding in accounts receivable (DSO) at the end of the third quarter of fiscal 2012 was 31 days, compared with 38 days at the end of fiscal 2011.

Our inventory balance was $1.5 billion at the end of each the third quarter of fiscal 2012 and the end of fiscal 2011. Annualized inventory turns were 11.5 in the third quarter of fiscal 2012 and were 11.8 in the fourth quarter of fiscal 2011.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us 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 in our Annual Report on Form 10-K for the fiscal year ended July 30, 2011, as updated as applicable in Note 2 herein, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on these policies.

Revenue Recognition

Revenue is recognized when all of the following criteria have been met:

Persuasive evidence of an arrangement exists. Contracts, Internet commerce agreements, and customer purchase orders are generally used to determine the existence of an arrangement.

Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery.

The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

Collectibility is reasonably assured. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer s payment history.

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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. When a sale involves multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine the unit of accounting, and the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price. Revenue is recognized when the revenue recognition criteria for each unit of accounting are met.

The amount of product and service revenue recognized in a given period is affected by our judgment as to whether an arrangement includes multiple deliverables and, if so, our valuation of the units of accounting for multiple deliverables. According to the accounting guidance prescribed in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, we use vendor-specific objective evidence of selling price (VSOE) for each of those units, when available. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range, generally evidenced by approximately 80% of such historical standalone transactions falling within plus or minus 15% of the median selling price. VSOE exists across most of our product and service offerings. In certain limited circumstances when VSOE does not exist, we apply the selling price hierarchy to applicable multiple-deliverable arrangements. Under the selling price hierarchy, third-party evidence of selling price (TPE) will be considered if VSOE does not exist, and estimated selling price (ESP) will be used if neither VSOE nor TPE is available. Generally, we are not able to determine TPE because our go-to-market strategy differs from that of others in our markets, and the extent of customization varies among comparable products or services from our peers. In determining ESP, we apply significant judgment as we weigh a variety of factors, based on the facts and circumstances of the arrangement. We typically arrive at an ESP for a product or service that is not sold separately by considering company-specific factors such as geographies, competitive landscape, internal costs, gross margin objectives, pricing practices used to establish bundled pricing, and existing portfolio pricing and discounting.

Some of our sales arrangements have multiple deliverables containing software and related software support components. Such sale arrangements are subject to the accounting guidance in ASC 985-605, *Software-Revenue Recognition.*

As our business and offerings evolve over time, our pricing practices may be required to be modified accordingly, which could result in changes in selling prices, including both VSOE and ESP in subsequent periods. There were no material impacts during the quarter nor do we currently expect a material impact in the next twelve months on our revenue recognition due to any changes in our VSOE, TPE, or ESP.

Revenue deferrals relate to the timing of revenue recognition for specific transactions based on financing arrangements, service, support, and other factors. Financing arrangements may include sales-type, direct-financing, and operating leases, loans, and guarantees of third-party financing. Our deferred revenue for products was $3.9 billion and $3.7 billion as of April 28, 2012 and July 30, 2011, respectively. Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which typically is from one to three years. Advanced services revenue is recognized upon delivery or completion of performance. Our deferred revenue for Service was $8.8 billion as of April 28, 2012 and $8.5 billion as of July 30, 2011.

We make sales to distributors and retail partners and generally recognize revenue based on a sell-through method using information provided by them. Our distributors and retail partners participate in various cooperative marketing and other programs, and we maintain estimated accruals and allowances for these programs. If actual credits received by our distributors and retail partners under these programs were to deviate significantly from our estimates, which are based on historical experience, our revenue could be adversely affected.

Allowances for Receivables and Sales Returns

The allowances for receivables were as follows (in millions, except percentages):

	April 28, 2012	July 30, 2011
Allowance for doubtful accounts	$ 216	$ 204
Percentage of gross accounts receivable	*5.1%*	*4.2%*
Allowance for credit loss lease receivables	$ 252	$ 237
Percentage of gross lease receivables	*7.4%*	*7.6%*
Allowance for credit loss loan receivables	$ 118	$ 103
Percentage of gross loan receivables	*6.5%*	*7.0%*

The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the receivable balances as well as external factors such as economic conditions that may affect a customer s ability to pay and expected default frequency rates, which are published by major third-party credit-rating agencies and are generally updated on a quarterly basis.

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We also consider the concentration of receivables outstanding with a particular customer in assessing the adequacy of our allowances for doubtful accounts. If a major customer s creditworthiness deteriorates, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our revenue.

As discussed in Note 7 to the Consolidated Financial Statements, effective at the beginning of the second quarter of fiscal 2012 we refined our methodology for determining the portion of our allowance for credit loss which is evaluated on a collective basis. The refinement consists of more systematically giving effect to economic conditions, concentration of risk and correlation. We also began to use expected default frequency rates published by a major third-party credit-rating agency as well as our own historical loss rate in the event of default. Determination of expected default frequency rates and loss factors associated with internal credit risk ratings as well as assessing economic conditions, concentration of risk and correlation are complex and subjective. Our ongoing consideration of all these factors could result in an increase in our allowance for credit loss in the future, which could adversely affect our net income.

Both accounts receivable and financing receivables are charged off at the point when they are considered uncollectible.

A reserve for future sales returns is established based on historical trends in product return rates. The reserve for future sales returns as of April 28, 2012 and July 30, 2011 was $121 million and $106 million, respectively, and was recorded as a reduction of our accounts receivable. 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 Valuation and Liability for Purchase Commitments with Contract Manufacturers and Suppliers

Our inventory balance was $1.5 billion as of both April 28, 2012 and July 30, 2011. Inventory is written down based on excess and obsolete inventories determined primarily by future demand forecasts. Inventory write-downs are measured as the difference between the cost of the inventory and market, based upon assumptions about future demand, and are charged to the provision for inventory, which is a component of our cost of sales. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

We record a liability for firm, noncancelable, and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of April 28, 2012, the liability for these purchase commitments was $173 million as compared with $168 million as of July 30, 2011, and was included in other current liabilities.

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Our provision for inventory was $91 million and $174 million for the first nine months of fiscal 2012 and 2011, respectively. Our provision for inventory for the first nine months of fiscal 2012 decreased due to charges we recorded in connection with the restructuring of our consumer business during fiscal 2011. The provision for the liability related to purchase commitments with contract manufacturers and suppliers was $103 million and $58 million for the first nine months of fiscal 2012 and 2011, respectively. The provision for the liability related to purchase commitments with contract manufacturers and suppliers increased due to higher provisions related to certain component supplies that we secured for our extended needs and due to higher contract manufacturer excess and obsolescence charges. 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 write-downs and our liability for purchase commitments with contract manufacturers and suppliers, and accordingly gross margin could be adversely affected. We regularly evaluate our exposure for inventory write-downs and the adequacy of our liability for purchase commitments. Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility to help ensure competitive lead times with the risk of inventory obsolescence, particularly in light of current macroeconomic uncertainties and conditions and the resulting potential for changes in future demand forecast.

Warranty Costs

The liability for product warranties, included in other current liabilities, was $390 million as of April 28, 2012, compared with $342 million as of July 30, 2011. See Note 12 to the Consolidated Financial Statements. Our products are generally covered by a warranty for periods ranging from 90 days to five years, and for some products we provide a limited lifetime warranty. We accrue for warranty costs as part of our cost of sales based on associated material costs, technical support labor costs, and associated overhead. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is estimated based primarily upon historical trends in the rate of customer cases and the cost to support the customer cases within the warranty period. Overhead cost is applied based on estimated time to support warranty activities.

The provision for product warranties issued during the first nine months of fiscal 2012 and 2011 was $474 million and $330 million, respectively. The increase in the provision was primarily due to increased shipment volume of products with higher warranty costs and longer warranty lives, and also due to a warranty charge related to a specific product. If we experience an increase in warranty claims compared with our historical experience, or if the cost of servicing warranty claims is greater than expected, our gross margin could be adversely affected.

Share-Based Compensation Expense

Share-based compensation expense is presented as follows (in millions):

	Nine Months Ended		
	April 28, 2012	**April 30, 2011**	**Variance**
Share-based compensation expense	$ 1,032	$ 1,237	$ (205)

Prior to the initial declaration of a quarterly cash dividend on March 17, 2011, the fair value of restricted stock and restricted stock units was measured based on an expected dividend yield of 0% as we did not historically pay cash dividends on our common stock. For awards granted on or subsequent to March 17, 2011, we used an annualized dividend yield based on the per share dividends declared by our Board of Directors. See Note 14 to the Consolidated Financial Statements.

The determination of the fair value of employee stock options and employee stock purchase rights on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. For employee stock options and employee stock purchase rights, these variables include, but are not limited to, the expected stock price volatility over the term of the awards, the risk-free interest rate, and expected dividends as of the grant date. For employee stock options, we used the implied volatility for two-year traded options on our stock as the expected volatility assumption required in the lattice-binomial model. For employee stock purchase rights, we used the implied volatility for traded options (with lives corresponding to the expected life of the employee stock purchase rights) on our stock. The selection of the implied volatility approach was based upon the availability of actively traded options on our stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. The valuation of employee stock options is also impacted by kurtosis and skewness, which are technical measures of the distribution of stock price returns and the actual and projected employee stock option exercise behaviors.

Because share-based compensation expense is based on awards ultimately expected to vest, it has been reduced for forfeitures. If factors change and we employ different assumptions in the application of our option-pricing model in future periods or if we experience different forfeiture rates, the compensation expense that is derived may differ significantly from what we have recorded in the current period.

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Fair Value Measurements

Our fixed income and publicly traded equity securities, collectively, are reflected in the Consolidated Balance Sheets at a fair value of $42.0 billion as of April 28, 2012 as compared with $36.9 billion as of July 30, 2011. Our fixed income investment portfolio, as of April 28, 2012, consisted primarily of high quality investment-grade securities. See Note 8 to the Consolidated Financial Statements.

As described more fully in Note 9 to the Consolidated Financial Statements, a valuation hierarchy is based on the level of independent, objective evidence available regarding the value of the investments. It encompasses three classes of investments: Level 1 consists of securities for which there are quoted prices in active markets for identical securities; Level 2 consists of securities for which observable inputs other than Level 1 inputs are used, such as quoted prices for similar securities in active markets or quoted prices for identical securities in less active markets and model-derived valuations for which the variables are derived from, or corroborated by, observable market data; and Level 3 consists of securities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value.

Our Level 2 securities are valued using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. We use inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from independent pricing vendors, quoted market prices, or other sources to determine the ultimate fair value of our assets and liabilities. We use such pricing data as the primary input, to which we have not made any material adjustments during fiscal 2012 and fiscal 2011, to make our assessments and determinations as to the ultimate valuation of our investment portfolio. We are ultimately responsible for the financial statements and underlying estimates.

The inputs and fair value are reviewed for reasonableness, may be further validated by comparison to publicly available information, and could be adjusted based on market indices or other information that management deems material to its estimate of fair value. The assessment of fair value can be difficult and subjective. However, given the relative reliability of the inputs we use to value our investment portfolio, and because substantially all of our valuation inputs are obtained using quoted market prices for similar or identical assets, we do not believe that the nature of estimates and assumptions affected by levels of subjectivity and judgment was material to the valuation of the investment portfolio as of April 28, 2012. We had no Level 3 assets in our investment portfolio as of April 28, 2012.

Other-Than-Temporary Impairments

We recognize an impairment charge when the declines in the fair values of our fixed income or publicly traded equity securities below their cost basis are judged to be other than temporary. The ultimate value realized on these securities, to the extent unhedged, is subject to market price volatility until they are sold.

If the fair value of a debt security is less than its amortized cost, we assess whether the impairment is other than temporary. An impairment is considered other than temporary if (i) we have the intent to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovery of its entire amortized cost basis, or (iii) we do not expect to recover the entire amortized cost of the security. If an impairment is considered other than temporary based on (i) or (ii) described in the prior sentence, the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If an impairment is considered other than temporary based on condition (iii), the amount representing credit loss, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security, will be recognized in earnings, and the amount relating to all other factors will be recognized in other comprehensive income (OCI). In estimating the amount and timing of cash flows expected to be collected, we consider all available information, including past events, current conditions, the remaining payment terms of the security, the financial condition of the issuer, expected defaults, and the value of underlying collateral.

For publicly traded equity securities, we consider various factors in determining whether we should recognize an impairment charge, including 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.

There were no material impairment charges on our investments in publicly traded equity securities in the first nine months of fiscal 2012 or fiscal 2011. Our ongoing consideration of all the factors described previously could result in impairment charges in the future, which could adversely affect our net income.

We also have investments in privately held companies, some of which are in the startup or development stages. As of April 28, 2012, our investments in privately held companies were $841 million, as compared to $796 million as of July 30, 2011, and were included in other assets. We monitor these investments for events or circumstances indicative of potential impairment and will make appropriate reductions in carrying values if we determine that an impairment charge is required, based primarily on the financial condition and near-term prospects of these companies. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Our impairment charges on investments in privately held companies were $17 million and $6 million for the first nine months of fiscal 2012 and 2011, respectively. See Note 9 to the Consolidated Financial Statements.

Goodwill and Purchased Intangible Asset Impairments

Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques. Goodwill represents a residual value as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquired company over the fair value of net assets acquired, including contingent consideration. We perform goodwill impairment tests on an annual basis in the fourth fiscal quarter and between annual tests in certain circumstances for each reporting unit. The assessment of fair value for goodwill and purchased intangible assets is based on factors that market participants would use in an orderly transaction in accordance with the accounting guidance for the fair value measurement of nonfinancial assets.

The goodwill recorded in the Consolidated Balance Sheets as of April 28, 2012 and July 30, 2011 was $17.0 billion and $16.8 billion, respectively. In response to changes in industry and market conditions, we could be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. There was no impairment of goodwill in the first nine months of fiscal 2012 and 2011.

We make judgments about the recoverability of purchased intangible assets with finite lives whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of purchased intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts. We had no impairment charges related to purchased intangible assets during the first nine months of fiscal 2012. Such impairment charges were $164 million during the first nine months of fiscal 2011. Our ongoing consideration of all the factors described previously could result in additional impairment charges in the future, which could adversely affect our net income.

Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rates differ from the statutory rate, primarily due to the tax impact of state taxes, foreign operations, research and development (R&D) tax credits, tax audit settlements, nondeductible compensation, international realignments, and transfer pricing adjustments. Our effective tax rate was 22.1% and 18.0% in the third quarter of fiscal 2012 and fiscal 2011, respectively. Our effective tax rate was 21.2% and 17.3% for the first nine months of fiscal 2012 and fiscal 2011, respectively.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments including the effect of acquisitions on our intercompany R&D cost-sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates and in some cases is wholly exempt from tax. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) 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. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

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Loss Contingencies

We are subject to the possibility of various losses 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 and whether new accruals are required.

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to 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. 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.

Results of Operations

Net Sales

The following table presents the breakdown of net sales between product and service revenue (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	April 28, 2012	April 30, 2011	Variance in Dollars	Variance in Percent	April 28, 2012	April 30, 2011	Variance in Dollars	Variance in Percent
Net sales:								
Product	$ 9,106	$ 8,669	$ 437	5.0%	$ 27,176	$ 25,605	$ 1,571	6.1%
Service	2,482	2,197	285	13.0%	7,195	6,418	777	12.1%
Total	$ 11,588	$ 10,866	$ 722	6.6%	$ 34,371	$ 32,023	$ 2,348	7.3%

Our net sales, which include product and service revenue for each geographic segment, are summarized in the following table (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	April 28, 2012	April 30, 2011	Variance in Dollars	Variance in Percent	April 28, 2012	April 30, 2011	Variance in Dollars	Variance in Percent
Net sales:								
Americas	$ 6,466	$ 6,265	$ 201	3.2%	$ 19,606	$ 18,592	$ 1,014	5.5%
Percentage of net sales	*55.8%*	*57.7%*			*57.0%*	*58.1%*		
EMEA	3,160	3,020	140	4.6%	9,255	8,650	605	7.0%
Percentage of net sales	*27.3%*	*27.8%*			*27.0%*	*27.0%*		
APJC	1,962	1,581	381	24.1%	5,510	4,781	729	15.2%
Percentage of net sales	*16.9%*	*14.5%*			*16.0%*	*14.9%*		
Total	$ 11,588	$ 10,866	$ 722	6.6%	$ 34,371	$ 32,023	$ 2,348	7.3%

For the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, net sales increased by 7%. Our net product sales and service revenue totals each reflected strong sales growth across all of our geographic segments, particularly with our APJC segment which experienced 24% sales growth due in part due to revenue growth in advanced services.

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For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, net sales increased by 7%, with sales increases experienced across our three geographic segments. Within the total sales growth, net product sales increased by 6% while service revenue increased by 12%.

We conduct business globally in numerous currencies. The direct effect of foreign currency fluctuations on sales has not been material because our sales are primarily denominated in U.S. dollars. However, if the U.S. dollar strengthens relative to other currencies, such strengthening could have an indirect effect on our sales to the extent it raises the cost of our products to non-U.S. customers and thereby reduces demand. A weaker U.S. dollar could have the opposite effect. However, the precise indirect effect of currency fluctuations is difficult to measure or predict because our sales are influenced by many factors in addition to the impact of such currency fluctuations.

In addition to the impact of macroeconomic factors, including a reduced IT-related capital spending environment and budget-driven reductions in spending by government entities, net sales by segment in a particular period may be significantly impacted by several factors related to revenue recognition, including the complexity of transactions such as multiple-element arrangements; the mix of financing arrangements provided to our channel partners and customers; and final acceptance of the product, system, or solution, among other factors. In addition, certain customers tend to make large and sporadic purchases, and the net sales related to these transactions may also be affected by the timing of revenue recognition, which in turn would impact the net sales of the relevant segment. As has been the case in certain of our emerging countries from time to time, customers require greater levels of financing arrangements, service, and support and this may occur in future periods, which may also impact the timing of the recognition of revenue.

Net Product Sales by Segment

The following table presents the breakdown of net product sales by segment (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	April 28, 2012	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**	**April 28, 2012**	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**
Net product sales:								
Americas	$ 4,889	$ 4,829	$ 60	1.2%	$ 14,919	$ 14,355	$ 564	3.9%
Percentage of net product sales	*53.7%*	*55.7%*			*54.9%*	*56.0%*		
EMEA	2,639	2,543	96	3.8%	7,758	7,319	439	6.0%
Percentage of net product sales	*29.0%*	*29.3%*			*28.5%*	*28.6%*		
APJC	1,578	1,297	281	21.7%	4,499	3,931	568	14.4%
Percentage of net product sales	*17.3%*	*15.0%*			*16.6%*	*15.4%*		
Total	$ 9,106	$ 8,669	$ 437	5.0%	$ 27,176	$ 25,605	$ 1,571	6.1%

Americas

Net product sales in the Americas segment for the third quarter of fiscal 2012 increased by 1% compared with the corresponding period in fiscal 2011. We experienced net product sales increases in our commercial and service provider markets, while our enterprise and public sector markets experienced net product sales declines. Our net product sales to the U.S. public sector market were relatively flat, with net product sales increases to state and local governments being offset by a decline in sales to the U.S. federal government. From a country perspective, net product sales increased by 7% in Canada, 12% in Brazil, and 12% in Mexico, while net product sales in the United States were flat.

For the first nine months of fiscal 2012, as compared to the first nine months of fiscal 2011, net product sales in the Americas segment increased by 4%. The increase in net product sales was across most of our customer markets in the Americas segment, led by growth in the service provider, enterprise, and commercial markets. We experienced a net product sales decline in the public sector market during the nine month period. This decline in the public sector market was driven primarily by lower net product sales to the U.S. public sector, resulting primarily from lower net product sales to the U.S. federal government, which were partially offset by higher net product sales to state and local government for the nine month period. From a country perspective, net product sales increased by 2% in the United States, 12% in Canada, 21% in Brazil, and 28% in Mexico.

EMEA

Net product sales in the EMEA segment for the third quarter of fiscal 2012 increased by 4% compared with the corresponding period in fiscal 2011. The increase in net product sales was across most of our customer markets in the EMEA segment, with growth in the commercial, public sector, and enterprise markets. Sales to the service provider market declined for the third quarter of fiscal 2012, as compared to the corresponding prior year period. We experienced net product sales growth in the emerging countries in EMEA, led by strong growth of 14% in Russia. Additionally, from a country perspective, net product sales increased by 12% in the United Kingdom and 2% in the Netherlands. The revenue growth in the United Kingdom was due, in large part, to increased sales to our service provider customers. Partially offsetting these country-specific sales increases, were net product sales decreases of 4% in France, 3% in Germany, 15% in Italy, and 24% in Spain.

For the first nine months of fiscal 2012, as compared to the first nine months of fiscal 2011, net product sales in the EMEA segment increased by 6%. The increase in net product sales was across all of our customer markets in the EMEA segment, led by strong growth in the commercial, enterprise and public sector markets, and to a lesser degree, in the service provider market. From a country perspective, net product sales increased by 18% in the United Kingdom, 4% in France, 1% in Germany, 18% in Russia, and 10% in the Netherlands. These increases were partially offset by net product sales decreases of 22% in Spain and 13% in Italy.

APJC

Net product sales in the APJC segment for the third quarter of fiscal 2012 increased by 22% compared with the corresponding period in fiscal 2011. We experienced net product sales growth across each of our customer markets in the APJC segment. These increases were led by strong net product sales growth in the service provider, enterprise, and commercial customer markets. To a lesser degree, the public sector market also experienced net product sales growth. From a country perspective, net product sales were strong across our major countries in the region with increases of 40% in Japan and 29% in China. The strong growth in Japan and China on a year-over-year basis was largely attributable to higher net product sales to our service provider customers. Net product sales increased 20% in India, although we continue to experience challenges in our business momentum in the public sector customer market in this country. Net product sales increased 10% in Australia.

For the first nine months of fiscal 2012, as compared to the first nine months of fiscal 2011, net product sales in the APJC segment increased by 14%. The increase was led by strong net product sales growth in the service provider market, and to a lesser degree, in the commercial and enterprise markets. We experienced a net product sales decline in our public sector market. From a country perspective, net product sales increased by 35% in Japan, 21% in China, and 3% in Australia. We experienced a year-over-year net product sales decline of 6% in India, due primarily to ongoing business momentum challenges in the public sector customer market.

Net Product Sales by Groups of Similar Products

In addition to the primary view on a geographic basis, we also prepare financial information related to groups of similar products and customer markets for various purposes. Our product categories consist of the following categories (with subcategories in parentheses): Switching (fixed switching, modular switching, and storage); NGN Routing (high-end routers, mid-range and low-end routers, optical); Collaboration (unified communications and Cisco TelePresence); Service Provider Video (cable and cable modem, video systems); Wireless; Security; Data Center; and Other Products. The Other Products category consists primarily of Linksys-related products, emerging technology products, and Application Network Services.

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The following table presents net sales for groups of similar products (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	April 28, 2012	April 30, 2011	Variance In Dollars	Variance in Percent	April 28, 2012	April 30, 2011	Variance in Dollars	Variance in Percent
Net product sales:								
Switching	$ 3,644	$ 3,480	$ 164	4.7%	$ 10,926	$ 10,510	$ 416	4.0%
Percentage of net product sales	*40.0%*	*40.1%*			*40.2%*	*41.0%*		
NGN Routing	2,143	2,150	(7)	(0.3)%	6,328	6,246	82	1.3%
Percentage of net product sales	*23.5%*	*24.8%*			*23.3%*	*24.4%*		
Collaboration	1,007	1,008	(1)	(0.1)%	3,147	2,937	210	7.2%
Percentage of net product sales	*11.1%*	*11.6%*			*11.6%*	*11.5%*		
Service Provider Video	1,002	898	104	11.6%	2,896	2,501	395	15.8%
Percentage of net product sales	*11.0%*	*10.4%*			*10.7%*	*9.8%*		
Wireless	425	353	72	20.4%	1,205	1,022	183	17.9%
Percentage of net product sales	*4.7%*	*4.1%*			*4.4%*	*4.0%*		
Security	345	316	29	9.2%	999	876	123	14.0%
Percentage of net product sales	*3.8%*	*3.6%*			*3.7%*	*3.4%*		
Data Center	291	173	118	68.2%	883	475	408	85.9%
Percentage of net product sales	*3.2%*	*2.0%*			*3.2%*	*1.9%*		
Other	249	291	(42)	(14.4)%	792	1,038	(246)	(23.7)%
Percentage of net product sales	*2.7%*	*3.4%*			*2.9%*	*4.0%*		
Total	$ 9,106	$ 8,669	$ 437	5.0%	$ 27,176	$ 25,605	$ 1,571	6.1%

Switching

Our Switching product category consists of switching and storage products. Net product sales in our Switching product category increased by 5% in the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, which was primarily due to accelerating growth with transitioning products in the portfolio and data center deployments. Growth in Switching was reflected by sales increases across all customer markets. Within our Switching product category, sales of LAN fixed-configuration switches increased 9%, or $176 million, while sales of modular switches decreased 1%, or $12 million. The increase in sales of LAN fixed-configuration switches was primarily due to increased sales of Cisco Catalyst 2960 Series Switches, Cisco Nexus 2000, and Cisco Nexus 5000 Series Switches, partially offset by decreased sales of Cisco Catalyst 3750 Series Switches and Cisco Catalyst 3560 Series Switches. The decrease in sales of modular switches was primarily due to decreased sales of Cisco Catalyst 6500 Series Switches and Cisco Catalyst 4500 Series Switches, partially offset by increased sales of Cisco Nexus 7000 Series Switches. Net product sales in our storage product category were flat.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, net product sales in our Switching product category increased by 4%. The increase was primarily due to growth from transitioning products taking place in our Switching product portfolio. The impact of competitive pressures moderated growth, primarily in the first quarter of fiscal 2012. Within our Switching product category, higher sales of LAN fixed-configuration switches and storage products were partially offset by lower sales of modular switches. Sales of LAN fixed-configuration switches increased 14%, or $761 million, while sales of modular switches decreased 8%, or approximately $370 million. The increase in sales of LAN fixed-configuration switches was primarily due to increased sales of Cisco Catalyst 2960 Series Switches, Cisco Nexus 2000 and 5000 Series Switches, and the Cisco Catalyst 3750 Series Switches, partially offset by decreased sales of Cisco Catalyst 3560 Series Switches. Net product sales in our Switching product category were positively impacted by a 6% increase in sales of storage products, primarily stemming from strong growth in the first quarter of fiscal 2012. Sales of modular switches decreased primarily due to lower sales of Cisco Catalyst 6500 Series Switches and Cisco Catalyst 4500 Series Switches, partially offset by increased sales of Cisco Nexus 7000 Series Switches.

NGN Routing

Our NGN Routing product category consists of routing and optical networking products. We categorize our routers primarily as high-end and mid range/low-end routers. The flat performance of our NGN Routing product category in the third quarter of fiscal 2012 was a result of a 2%, or $29 million increase in sales of high-end router products; flat sales of our midrange and low-end router products category; and an approximately 17% or $35 million decline in sales of other NGN Routing products.

Within the high-end router products category, the increase was driven by higher sales of Cisco Aggregation Services Routers (ASR) 9000, Cisco ASR 1000 products along with higher sales of Cisco CRS-3 Carrier Routing System products. These increases were partially offset by lower sales of Cisco 12000 Series Routers, Cisco 7600 Series Routers and lower sales of the Cisco ASR 5000 family of products. Within the midrange and low-end router products category, higher sales of Cisco Integrated Services Routers (ISR) 1900, Cisco ISR 2900 and Cisco ISR 3900 router products were offset by sales declines in certain of our older generation ISR products. The decrease in sales of other NGN Routing products, as compared with the third quarter of fiscal 2011, was driven by lower sales of optical networking products.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, net product sales in our NGN Routing product category increased 1%. The increase in sales of our NGN Routing product category was driven by a 6%, or $196 million, increase in sales in high-end router products, partially offset by a 4%, or $82 million, decline in sales of our midrange and low-end router products. Within the high-end router products category, the increase was driven by higher sales of Cisco CRS-3 Carrier Routing System products and higher sales of the Cisco ASR 1000, Cisco ASR 9000 products and Cisco ASR 5000 family of products. These increases were partially offset by lower sales of Cisco 12000 Series Routers and Cisco 7600 Series Routers. Within the midrange and low-end router products category, the decrease was related to the product transition taking place within our ISR products as the sales decline in our older generation products had a greater impact than the growth experienced with our ISR 1900, Cisco ISR 2900 and Cisco ISR 3900 router products in this category. Sales of other NGN Routing products decreased by 6%, compared with the first nine months of fiscal 2011, primarily due to increased sales of optical networking products.

Collaboration

In the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, sales of Collaboration products were flat. Increased sales of IP phones within our unified communications products were offset by sales declines across other products in the unified communications portfolio. Sales of Cisco TelePresence systems were also flat for the third quarter of fiscal 2012 as compared with the third quarter of fiscal 2011. We believe the relative weakness for Collaboration is attributable to a number of factors, including market driven factors, pressure with regard to reduced spending from enterprise and public sector customers driven by the difficult macroeconomic environment, and our need to execute more effectively as we transition our sales strategy in this area.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales of Collaboration products increased by 7%, or $210 million. The increase was due to a 6% increase in sales of unified communications products, primarily IP phones and collaborative web-based offerings, along with a 9% increase in sales of Cisco TelePresence systems.

Service Provider Video

In the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, sales of Service Provider Video products increased by 12%, or $104 million, due to growth within our service provider customer market of sales of settop boxes worldwide. Sales of video systems and other products increased by 16%, or $100 million, while sales of cable and cable modem products increased by 2%, or $4 million.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales of Service Provider Video products increased by 16%, or $395 million due to growth in our service provider customer market from increased sales of settop boxes worldwide. Sales of video systems and other products increased by 16%, or $287 million, while sales of cable and cable modem products increased by 16%, or $108 million.

Wireless

In the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, sales of Wireless products increased by 20%, or $72 million. For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales of Wireless products increased by 18%, or $183 million. These increases reflect the continued customer adoption of and migration to the Cisco Unified Wireless Network architecture and new product performance.

Security

In the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, sales of Security products increased by 9%, or $29 million. For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales of Security products increased by 14%, or $123 million. These increases were primarily due to growth in our network security products driven by the recent refresh of our firewall security product portfolio.

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Data Center

In the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, sales of Data Center products increased by 68%, or $118 million, due primarily to sales growth of Cisco Unified Computing System products. During the third quarter of fiscal 2012, our data center revenue growth rate was impacted in part due to the introduction of a new server chip technology platform that is currently undergoing customer evaluations. To the extent our data center business grows and further penetrates the market, we expect that, in comparison to what we experienced during the initial rapid growth of this business, the growth rates for our data center product sales will experience more normal seasonality consistent with the overall server market. For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales of Data Center products increased by 86%, or $408 million, due to strong growth from Cisco Unified Computing System products.

Other Products

The decrease in sales of Other Products during the third quarter of fiscal 2012 and first nine months of fiscal 2012, as compared with the corresponding periods in the prior fiscal year, was primarily due to lower sales of Pure Digital products in connection with our decision in fiscal 2011 to exit this consumer product line.

Service Revenue

For the third quarter of fiscal 2012 as compared with the third quarter of fiscal 2011, the increase in total Service revenue was comprised of growth across both technical support services, which had revenue growth of 10%, and advanced services, which had revenue growth of 23%, due to strong growth in subscription and transaction services. For the first nine months of fiscal 2012 as compared with the corresponding period in fiscal 2011, the increase in total Service revenue consisted of increases in both technical support services, which had revenue growth of 10%, and advanced services, which had revenue growth of 19%.

The following table presents the breakdown of net product sales by segment (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	April 28, 2012	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**	**April 28, 2012**	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**
Net service sales:								
Americas	$ 1,577	$ 1,436	$ 141	9.8%	$ 4,687	$ 4,237	$ 450	10.6%
Percentage of net service sales	*63.5%*	*65.4%*			*65.1%*	*66.0%*		
EMEA	521	477	44	9.2%	1,497	1,331	166	12.5%
Percentage of net service sales	*21.0%*	*21.7%*			*20.8%*	*20.7%*		
APJC	384	284	100	35.2%	1,011	850	161	18.9%
Percentage of net service sales	*15.5%*	*12.9%*			*14.1%*	*13.3%*		
Total	$ 2,482	$ 2,197	$ 285	13.0%	$ 7,195	$ 6,418	$ 777	12.1%

Service revenue increased across all of our geographic segments in the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, with APJC in particular experiencing strong revenue growth. Technical support services had solid revenue growth across all of our geographic segments, while advanced services had particularly strong revenue growth in APJC along with solid revenue growth in the Americas and EMEA segments. The APJC revenue growth in advanced services was a blend of subscription growth and transaction growth, which was in part the result of the completion of several large, multiyear projects in this region.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, Service revenue experienced double-digit percentage revenue growth across all of our geographic segments. Technical support services revenue grew across all of our geographic segments. Advanced services revenue also grew across all geographic segments, with particularly strong growth in APJC, which was driven by the strong performance of advanced services for the third quarter of fiscal 2012.

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Gross Margin

The following table presents the gross margin for product and service (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	Amount		Percentage		Amount		Percentage	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Gross margin:								
Product	$ 5,543	$ 5,232	60.9%	60.4%	$ 16,400	$ 15,537	60.3%	60.7%
Service	1,626	1,427	65.5%	65.0%	4,724	4,138	65.7%	64.5%
Total	$ 7,169	$ 6,659	61.9%	61.3%	$ 21,124	$ 19,675	61.5%	61.4%

Product Gross Margin

The following table summarizes the key factors that contributed to the decrease in product gross margin for the third quarter and first nine months of fiscal 2012 as compared with the corresponding prior year periods:

	Product Gross Margin Percentage	
	Three Months Ended	Nine Months Ended
Fiscal 2011	60.4%	60.7%
Restructuring and other charges	1.5%	0.6%
Overall manufacturing costs	1.3%	1.7%
Shipment volume, net of certain variable costs	0.6%	0.6%
Amortization of purchased intangible assets and other	0.1%	0.4%
Sales discounts, rebates, and product pricing	(2.5)%	(2.7)%
Mix of products sold	(0.5)%	(1.0)%
Fiscal 2012	60.9 %	60.3 %

Three Months Ended April 28, 2012 Compared with Three Months Ended April 30, 2011

Product gross margin for the third quarter of fiscal 2012 increased by 0.5 percentage points compared with the third quarter of fiscal 2011. Our product gross margin benefited from the absence in the current period of significant restructuring charges related to our consumer business in the prior year period. After adjusting for this item, our product gross margins have reflected relative stability on a year-over-year basis. This relative stability was attributable to lower overall manufacturing costs, including the benefits from our value engineering investments, particularly as related to certain of our Switching products. Higher shipment volume in the current period also contributed to the increase in product gross margin. These increases to product gross margin were partially offset by higher sales discounts, rebates, and unfavorable product pricing, which were driven by normal market factors and by the geographic mix of net product sales. Additionally, our product gross margin for the third quarter of fiscal 2012 continued to be negatively impacted by the shift in the mix of products sold, primarily as a result of sales increases for our lower margin Cisco Unified Computing System and Service Provider Video products, as well as sales increases of lower margin products within certain other product families. These mix impacts were partially offset by lower sales of consumer products during the third quarter of fiscal 2012.

Our future gross margins could be impacted by our product mix and by further growth in sales of products that have lower gross margins, such as Cisco Unified Computing System products. Our gross margins may also be impacted by the geographic mix of our sales or by increased sales discounts, rebates, and product pricing, which may be attributable to competitive factors. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain. If any of the preceding factors that impact our gross margins are adversely affected in future periods, our product and service gross margins could decline.

Nine Months Ended April 28, 2012 Compared with Nine Months Ended April 30, 2011

Product gross margin for the first nine months of fiscal 2012 decreased by 0.4 percentage points compared with the first nine months of fiscal 2011. The decrease was primarily due to the impact of higher sales discounts, rebates, and unfavorable product pricing, which were driven by normal market factors and by the geographic mix of net product sales. These factors impacted most of our customer markets and all of our geographic segments. Additionally, our product gross margin for the first nine months of fiscal 2012 was negatively impacted by the shift in the mix of products sold, primarily as a result of sales increases from our lower margin Cisco Unified Computing System products and Service Provider Video products. These negative factors were partially offset by lower overall manufacturing costs, higher shipment volume, and the absence of impairment charges related to purchased intangible assets, lower restructuring expense, and lower amortization expense in the first nine months of fiscal 2012. The lower overall manufacturing costs were in part due to increased benefits from our value engineering efforts, particularly in certain of our Switching products; favorable component pricing; and continued operational efficiency in manufacturing operations.

Service Gross Margin

Our service gross margin percentage increased by 0.5 percentage points for the third quarter of fiscal 2012 and 1.2 percentage points for the first nine months of fiscal 2012, as compared with the corresponding periods in the prior year. These increases were primarily due to higher sales volume for both technical support services and advanced services. The benefits to gross margin of volume increases for both periods were partially offset by increased cost impacts and mix. The mix impacts were due to lower gross margin advanced services having represented a higher proportion of service revenue for the fiscal 2012 periods, in comparison to the corresponding prior year periods.

For the third quarter of fiscal 2012, gross margin in technical support services was flat as a result of increased sales volume being offset by increased headcount-related costs. For the first nine months of fiscal 2012, gross margin in technical support services increased as a result of increased sales volume and lower supply chain costs, partially offset by higher headcount-related costs.

For the third quarter and first nine months of fiscal 2012, as compared to the corresponding prior year periods, gross margin in advanced services increased primarily due to strong sales volume growth, partially offset by higher delivery team costs which were, in part headcount related, and higher partner delivery costs. The gross margin performance in advanced services also benefited from the completion of several large multiyear projects in our APJC segment. For the third quarter of fiscal 2012, gross margin in advanced services particularly benefited from increased volume. Our revenue from advanced services may increase to a higher proportion of total service revenue due to our continued focus on providing comprehensive support to our customers networking devices, applications, and infrastructures.

Our service gross margin normally experiences some fluctuations due to various factors such as the timing of contract initiations in our renewals, our strategic investments in headcount, and the resources we deploy to support the overall service business. Other factors include the mix of service offerings, as the gross margin from our advanced services is typically lower than the gross margin from technical support services.

Gross Margin by Segment

The following table presents the total gross margin for each segment (in millions, except percentages):

	Three Months Ended				Nine Months Ended			
	Amount		Percentage		Amount		Percentage	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Gross margin:								
Americas	$ 4,053	$ 3,988	62.7%	63.7%	$ 12,319	$ 11,759	62.8%	63.2%
EMEA	2,019	1,966	63.9%	65.1%	5,868	5,589	63.4%	64.6%
APJC	1,242	987	63.3%	62.4%	3,342	2,996	60.7%	62.7%

Segment Total	7,314	6,941	63.1%	63.9%	21,529	20,344	62.6%	63.5%
Unallocated corporate items [(1)]	(145)	(282)			(405)	(669)		
Total	$ 7,169	$ 6,659	61.9%	61.3%	$ 21,124	$ 19,675	61.5%	61.4%

(1) The unallocated corporate items include the effects of amortization of acquisition-related intangible assets and share-based compensation expense, and also significant asset impairments and restructurings. We do not allocate these items to gross margin for each segment because management does not include the information in measuring the performance of the operating segments. The decrease in the current period amounts are primarily due to the absence in the current period of restructuring and acquisition-related intangible asset impairments that were recognized in the prior year periods.

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Three Months Ended April 28, 2012 Compared with Three Months Ended April 30, 2011

In the Americas segment, the gross margin percentage decrease was due to higher sales discounts, rebates and unfavorable pricing in this segment along with higher overall manufacturing and delivery costs. These decreases were partially offset by higher volume and to a lesser degree favorable mix impacts. The favorable volume impacts were driven by increased Data Center and Service Provider Video revenues. Additionally, a significant decrease in lower margin revenue from our consumer products resulted in a slightly positive mix impact to the gross margin for the Americas segment in the third quarter of fiscal 2012.

The gross margin percentage decrease in our EMEA segment was primarily the result of higher sales discounts, rebates and unfavorable pricing, along with mix impacts due primarily to increased revenue related to lower margin Service Provider Video products. These increases were partially offset by higher volume and lower overall manufacturing and delivery costs.

The APJC segment experienced a gross margin percentage increase due primarily to strong volume growth, particularly in our Service Provider Video and NGN Routing products. The gross margin in APJC also benefited from lower overall manufacturing and delivery costs. These increases in gross margin were partially offset by higher sales discounts, rebates and unfavorable pricing in this segment, along with the mix impact resulting primarily from increased revenue from our lower margin Service Provider Video products. Higher service gross margins also added to the overall gross margin percentage increase in APJC. The gross margin performance in the segment was also favorably impacted due to the completion of the aforementioned large, multiyear projects.

Nine Months Ended April 28, 2012 Compared with Nine Months Ended April 30, 2011

For the first nine months fiscal 2012, we experienced a gross margin percentage decline across all of our geographic segments as compared with the first nine months of fiscal 2011.

The Americas segment experienced a slight gross margin percentage decline with the impact of higher sales discounts, rebates and unfavorable pricing being mostly offset by higher volume, lower overall manufacturing and delivery costs, and favorable mix impacts. Significantly lower consumer sales resulted in a positive mix impact to the Americas segment gross margin for the first nine months of fiscal 2012.

The gross margin percentage decline in our EMEA segment was primarily the result of unfavorable mix impacts; higher sales discounts, rebates and unfavorable pricing; and lower service gross margin due to increased headcount-related costs. These decreases were partially offset by lower overall manufacturing and delivery costs and increased volume in this segment.

The APJC segment experienced the largest gross margin percentage decline of all of our geographic segments due primarily to the impact of higher sales discounts, rebates and unfavorable pricing, and unfavorable mix impacts. These decreases were partially offset by lower overall manufacturing and delivery costs and increased shipment volume in this segment.

The gross margin percentage for a particular segment may fluctuate, and period-to-period changes in such percentages may or may not be indicative of a trend for that segment. Our product and service gross margins may be impacted by economic downturns or uncertain economic conditions as well as our movement into new market opportunities, and could decline if any of the factors that impact our gross margins are adversely affected in future periods.

Factors That May Impact Net Sales and Gross Margin

Net product sales may continue to be affected by factors, including global economic downturns and related market uncertainty, that have resulted in reduced or cautious IT-related capital spending in our enterprise, service provider, public sector, and commercial markets; changes in the geopolitical environment and global economic conditions; competition, including price-focused competitors from Asia, especially from China; new product introductions; sales cycles and product implementation cycles; changes in the mix of our customers between service provider and enterprise markets; changes in the mix of direct sales and indirect sales; variations in sales channels; and final acceptance criteria of the product, system, or solution as specified by the customer. Sales to the service provider market have been and may be in the future characterized by large and sporadic purchases, especially relating to our router sales and sales of certain products within our collaboration and data center product categories. In addition, service provider customers typically have longer implementation cycles; require a broader range of services, including network design services; and often have acceptance provisions that can lead to a delay in revenue recognition. Certain of our customers in certain emerging countries also tend to make large and sporadic purchases, and the net sales related to these transactions may similarly be affected by the timing of revenue recognition. As we focus on new market opportunities, customers may require greater levels of financing arrangements, service, and support, especially in certain emerging countries, which in turn may result in a delay in the timing of revenue recognition. To improve customer satisfaction, we continue to focus on managing our manufacturing lead-time performance, 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.

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Net product sales may also be adversely affected by fluctuations in demand for our products, especially with respect to telecommunications service providers and Internet businesses, whether or not driven by any slowdown in capital expenditures in the service provider market; price and product competition in the communications and information technology industry; introduction and market acceptance of new technologies and products; adoption of new networking standards; and financial difficulties experienced by our customers. We may, from time to time, experience manufacturing issues that create a delay in our suppliers ability to provide specific components, resulting in delayed shipments. To the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods when we and our suppliers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters are not remediated within the same quarter. For additional factors that may impact net product sales, see Part II, Item 1A. Risk Factors.

Our distributors and retail partners participate in various cooperative marketing and other programs. Increased sales to our distributors and retail partners generally result 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 for sales to our distributors and retail partners generally based on a sell-through method using information provided by them, and we maintain estimated accruals and allowances for all cooperative marketing and other programs.

Product gross margin may be adversely affected in the future by changes in the mix of products sold, including periods of increased growth of some of our lower margin products; introduction of new products, including products with price-performance advantages; our ability to reduce production costs; entry into new markets, including markets with different pricing structures and cost structures, as a result of internal development or through acquisitions; changes in distribution channels; price competition, including competitors from Asia, especially those from China; changes in geographic mix of our product sales; the timing of revenue recognition and revenue deferrals; sales discounts; increases in material or labor costs, including share-based compensation expense; excess inventory and obsolescence charges; warranty costs; changes in shipment volume; loss of cost savings due to changes in component pricing; effects of value engineering; inventory holding charges; and the extent to which we successfully execute on our strategy and operating plans. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain. Service gross margin may be impacted by various factors such as the change in mix between technical support services and advanced services; the timing of technical support service contract initiations and renewals; share-based compensation expense; and the timing of our strategic investments in headcount and resources to support this business.

Research and Development (R&D), Sales and Marketing, and General and Administrative (G&A) Expenses

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

	Three Months Ended				Nine Months Ended			
	April 28, 2012	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**	**April 28, 2012**	**April 30, 2011**	**Variance in Dollars**	**Variance in Percent**
Research and development	$ 1,358	$ 1,430	$ (72)	(5.0)%	$ 4,072	$ 4,339	$ (267)	(6.2)%
Percentage of net sales	*11.7%*	*13.2%*			*11.8%*	*13.5%*		
Sales and marketing	2,383	2,446	(63)	(2.6)%	7,230	7,292	(62)	(0.9)%
Percentage of net sales	*20.6%*	*22.5%*			*21.0%*	*22.8%*		
General and administrative	562	466	96	20.6%	1,611	1,376	235	17.1%
Percentage of net sales	*4.8%*	*4.3%*			*4.7%*	*4.3%*		
Total	$ 4,303	$ 4,342	$ (39)	(0.9)%	$ 12,913	$ 13,007	$ (94)	(0.7)%
Percentage of net sales	*37.1%*	*40.0%*			*37.6%*	*40.6%*		

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The year-over-year changes within operating expenses, including the effects of foreign currency exchange rates, net of hedging, are summarized by line item as follows:

R&D Expenses

The decrease in R&D expenses for the third quarter and first nine months of fiscal 2012, as compared with the corresponding periods in fiscal 2011, was primarily due to lower headcount-related expense and lower share-based compensation expense. Additionally, for the first nine months of fiscal 2012, R&D expenses declined due to lower acquisition-related expense which relates to the absence in the current period of certain compensation payments that were paid in the corresponding prior year period.

We continue to invest in R&D 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 purchase or license technology from other businesses, or we may partner with or acquire businesses as an alternative to internal R&D.

Sales and Marketing Expenses

Sales and marketing expenses decreased in the third quarter of fiscal 2012, as compared with the third quarter of fiscal 2011, due to a decrease of $39 million in marketing expenses and a $24 million decrease in sales expenses. The decrease in marketing expenses for the period was due to lower advertisement expenses, lower headcount-related expenses, and lower share-based compensation expense. The decrease in sales expenses was due primarily to lower headcount-related expenses and lower share-based compensation expense.

For the first nine months of fiscal 2012, as compared with the first nine months of fiscal 2011, sales and marketing expenses decreased by $62 million. Marketing expenses decreased by $155 million, which were partially offset by an increase of $93 million in sales expenses. The decrease in marketing expenses for the period was due to lower advertisement expenses, lower headcount-related expense, and lower share-based compensation expense. The increase in sales expenses was due primarily to higher overall discretionary spending and higher headcount-related expense partially offset by lower share-based compensation expense.

G&A Expenses

G&A expenses increased in the third quarter and first nine months of fiscal 2012, as compared with the corresponding periods in fiscal 2011, due to increased corporate-level expenses, which tend to vary from period to period. The corporate-level expenses include increases related to our operational infrastructure such as real estate; IT project implementations, which include further investments in our global data center infrastructure; and investments related to operational and financial systems. Partially offsetting these increases were lower share-based compensation expense, lower acquisition-related expenses, and the net impact of certain tax audit settlements.

Effect of Foreign Currency

In the third quarter of fiscal 2012, foreign currency fluctuations, net of hedging, increased the combined R&D, sales and marketing, and G&A expenses by $7 million, or approximately 0.2%, compared with the third quarter of fiscal 2011. In the first nine months of fiscal 2012, foreign currency fluctuations, net of hedging, increased the combined R&D, sales and marketing, and G&A expenses by $126 million, or approximately 1%, compared with the first nine months of fiscal 2011.

Headcount

Our headcount increased by approximately 1,353 employees in the third quarter of fiscal 2012 and decreased by approximately 6,602 employees in the first nine months of fiscal 2012. The increase in the third quarter of fiscal 2012 was due to growth in services employees and strategic engineering hires, partially offset by headcount reductions from attrition and our restructuring actions. The decrease for the first nine months of fiscal 2012 was attributable to headcount reductions from the sale of our Juarez, Mexico manufacturing operations and from our restructuring actions.

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Share-Based Compensation Expense

The following table presents share-based compensation expense (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Cost of sales product	$ 12	$ 16	$ 39	$ 47
Cost of sales service	39	44	116	135
Share-based compensation expense in cost of sales	51	60	155	182
Research and development	97	120	297	373
Sales and marketing	138	160	429	491
General and administrative	51	60	153	191
Restructuring and other charges			(2)	
Share-based compensation expense in operating expenses	286	340	877	1,055
Total share-based compensation expense	$ 337	$ 400	$ 1,032	$ 1,237

The year-over-year decrease in share-based compensation expense for the third quarter and first nine months of fiscal 2012, as compared to the corresponding prior year periods, was due primarily to a decrease in the aggregate value of share-based awards in recent periods, the timing of the annual grants to employees in fiscal 2012, and the impact of our restructuring actions.

Amortization of Purchased Intangible Assets

The following table presents the amortization of purchased intangible assets included in operating expenses (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Amortization of purchased intangible assets included in operating expenses	$ 96	$ 103	$ 292	$ 419

The decrease in amortization of purchased intangible assets for the third quarter of fiscal 2012, compared with the corresponding period of fiscal 2011, was due to certain purchased intangible assets having become fully amortized in the current period. The decrease in amortization of purchased intangible assets for the first nine months of fiscal 2012, compared with the corresponding periods of fiscal 2011, was primarily due to the absence of impairment charges during fiscal 2012 and also due to certain purchased intangible assets having become fully amortized or impaired in fiscal 2011. The amortization of purchased intangible assets for the nine months ended April 30, 2011 included impairment charges of approximately $92 million. These impairment charges were primarily associated with certain of our consumer products. For additional information regarding purchased intangible assets, see Note 4 to the Consolidated Financial Statements.

The fair value of acquired technology and patents, as well as acquired technology under development, is determined at the acquisition date primarily using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations are typically derived from a weighted-average cost of capital analysis and then adjusted to reflect risks inherent in the development lifecycle, as deemed appropriate given the attendant circumstances. We consider the pricing model for products related to these acquisitions to be standard within the high-technology communications industry, and the applicable discount rates represent the rates that market participants would use for valuation of such intangible assets.

Restructuring and Other Charges

In the third quarter and first nine months of fiscal 2012, we incurred within operating expenses restructuring charges of $20 million and $225 million, respectively. In the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, we incurred restructuring and other charges of approximately $151 million, of which $31 million was recorded to operating expenses with the remainder recorded to cost of sales. See Note 5 to the Consolidated Financial Statements.

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Interest and Other Income, Net

Interest Income and Interest Expense

The following table summarizes interest income and interest expense (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Interest income	$ 161	$ 161	$ 483	$ 477
Interest expense	(151)	(153)	(449)	(480)
Total	$ 10	$ 8	$ 34	$ (3)

Interest income was flat in the third quarter and increased slightly for the first nine months of fiscal 2012, as compared with the corresponding prior year periods. For both periods, interest income from financing receivables increased but was offset by the effect of lower average interest rates on our portfolio of cash, cash equivalents, and fixed income investments. The decrease in interest expense in the third quarter of fiscal 2012, as compared with the corresponding prior year period, was attributable to favorable hedging impacts. The decrease in interest expense in the first nine months of fiscal 2012, as compared with the corresponding prior year period, was attributable to the effect of lower average interest rates on our debt and favorable hedging impacts.

Other Income, Net

The components of other income, net, are summarized as follows (in millions):

	Three Months Ended		Nine Months Ended	
	April 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011
Net gains on investments in publicly traded equity securities	$ 15	$ 42	$ 30	$ 72
Net gains on investments in fixed income securities	15	7	46	84
Total net gains on available-for-sale investments	30	49	76	156
Net (losses) gains on investments in privately held companies	(3)	(18)	(38)	29
Net gains on investments	27	31	38	185
Other (losses) and gains, net	(8)	(19)	7	(42)
Other income, net	$ 19	$ 12	$ 45	$ 143

The change in total net gains on available-for-sale investments in the third quarter of fiscal 2012 compared with the third quarter of fiscal 2011 was primarily attributable to lower gains on publicly traded equity securities in the current period as a result of market conditions, as well as the timing of sales of these securities. The change in total net gains on available-for-sale investments in the first nine months of fiscal 2012 compared with the first nine months of fiscal 2011 was attributable to lower gains on fixed income and publicly traded equity securities in the current period as a result of market conditions and the timing of sales of these securities.

The lower net losses on investments in privately held companies for the third quarter of fiscal 2012 as compared with the corresponding period of fiscal 2011 was primarily due to higher equity method gains in the current period. For the first nine months of fiscal 2012 compared with the corresponding period of fiscal 2011, the change in net (losses) gains on investments in privately held companies was primarily due to higher equity method losses related to our proportional share of losses related to our VCE joint venture.

The change in other (losses) and gains, net for the third quarter and first nine months of fiscal 2012 compared with the corresponding periods of fiscal 2011 was primarily due to more favorable foreign exchange amounts in the fiscal 2012 periods, partially offset by lower gains from customer lease terminations in the fiscal 2012 periods as compared with the corresponding prior year periods.

Provision for Income Taxes

The provision for income taxes resulted in an effective tax rate of 22.1% for the third quarter of fiscal 2012 compared with 18.0% for the third quarter of fiscal 2011. The net 4.1 percentage point increase in the effective tax rate between fiscal years was primarily attributable to a decrease in foreign income taxed at rates lower than the U.S. federal statutory rate of 35%.

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The provision for income taxes resulted in an effective tax rate of 21.2% for the first nine months of fiscal 2012 compared with 17.3% for the first nine months of fiscal 2011. Approximately 1.0 percentage points of the increase in the effective tax rate between fiscal years was attributable to the fiscal 2011 retroactive reinstatement of the U.S. federal R&D tax credit, which expired on December 31, 2011. The remaining 2.9 percentage point increase in the effective tax rate between fiscal years was primarily attributable to a decrease in foreign income taxed at rates lower than the U.S. federal statutory rate of 35%.

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates. Our provision for income taxes does not include provisions for U.S. income taxes and foreign withholding taxes associated with the repatriation of undistributed earnings of certain foreign subsidiaries that we intend to reinvest indefinitely in our foreign subsidiaries. If these earnings were distributed to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates and in some cases is wholly exempt from tax. Our failure to meet these commitments could adversely impact our provision for income taxes.

Liquidity and Capital Resources

The following sections discuss the effects of changes in our balance sheet, as well as the impacts of our contractual obligations, commitments, and the stock repurchase program on our liquidity and capital resources.

Balance Sheet and Cash Flows

Cash and Cash Equivalents and Investments The following table summarizes our cash and cash equivalents and investments (in millions):

	April 28, 2012	July 30, 2011	Increase (Decrease)
Cash and cash equivalents	$ 6,461	$ 7,662	$ (1,201)
Fixed income securities	40,437	35,562	4,875
Publicly traded equity securities	1,514	1,361	153
Total	$ 48,412	$ 44,585	$ 3,827

The increase in cash and cash equivalents and investments in the first nine months of fiscal 2012 was primarily the result of cash provided by operations of $8.4 billion. Partially offsetting this increase were the following: $1.8 billion for the repurchase of common stock (net of the issuance of common stock related to employee stock incentive plans), dividends paid of $1.1 billion, capital expenditures of $0.8 billion, and cash paid for acquisitions (net of cash and cash equivalents acquired) of approximately $0.3 billion.

The increase in cash provided by operating activities of $1.1 billion for the first nine months of fiscal 2012 compared with the corresponding period in fiscal 2011 was primarily the result of increased net income, partially offset by restructuring payments in the first nine months of fiscal 2012.

Our total in cash and cash equivalents and investments held by various foreign subsidiaries was $42.3 billion and $39.8 billion as of April 28, 2012 and July 30, 2011, respectively. Under current tax laws and regulations, if cash and cash equivalents and investments held by various foreign subsidiaries were to be distributed to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes. The balance available in the United States as of April 28, 2012 and July 30, 2011 was $6.1 billion and $4.8 billion, respectively.

We maintain an investment portfolio of various holdings, types, and maturities. We classify our investments as short-term investments based on their nature and their availability for use in current operations. We believe the overall credit quality of our portfolio is strong, with our cash equivalents and our fixed income investment portfolio consisting primarily of high quality investment-grade securities. We believe that our strong cash and cash equivalents and investments position allows us to use our cash resources for strategic investments to gain access to new technologies, for acquisitions, for customer financing activities, for working capital needs, and for the repurchase of shares of common stock and dividends.

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, the rate at which products are shipped during the quarter (which we refer to as shipment linearity), the timing and collection of accounts receivable and financing receivables, inventory and supply chain management, deferred revenue, excess tax benefits resulting from share-based compensation, and the timing and amount of tax and other payments. For additional discussion, see Part II, Item 1A. Risk Factors in this report.

Accounts Receivable, Net The following table summarizes our accounts receivable, net (in millions) and DSO:

	April 28, 2012	July 30, 2011	Increase (Decrease)
Accounts receivable, net	$ 3,980	$ 4,698	$ (718)
DSO	31	38	(7)

Our accounts receivable net, as of April 28, 2012 decreased by approximately 15% compared with the end of fiscal 2011. Our DSO as of April 28, 2012 was lower by 7 days compared with the end of fiscal 2011. The decrease in DSO during the third quarter of fiscal 2012 was due to an improvement in product and service billings linearity during the quarter, particularly with respect to the timing of product shipments.

Service billings have traditionally had the effect of increasing DSO due in part to the timing of billings, which in comparison to product billings have a larger proportion billed in the latter part of the quarter. Given various factors such as our business mix, linearity, and growth of our service business, going forward we expect DSO to be in the range of 30 to 40 days.

Inventories and Purchase Commitments with Contract Manufacturers and Suppliers The following table summarizes our inventories and purchase commitments with contract manufacturers and suppliers (in millions, except annualized inventory turns):

	April 28, 2012	July 30, 2011	Increase (Decrease)
Inventories	$ 1,497	$ 1,486	$ 11
Annualized inventory turns	11.5	11.8	(0.3)
Purchase commitments with contract manufacturers and suppliers	$ 4,369	$ 4,313	$ 56

Inventories as of April 28, 2012 increased by 1% from our balance at the end of fiscal 2011, and for the same period purchase commitments with contract manufacturers and suppliers were up approximately 1%. On a combined basis, inventories and purchase commitments with contract manufacturers and suppliers were also up 1% compared with the end of fiscal 2011. We believe our inventory and purchase commitments are in line with our current demand forecasts.

Our finished goods consist of distributor inventory and deferred cost of sales and manufactured finished goods. Distributor inventory and deferred cost of sales are related to unrecognized revenue on shipments to distributors and retail partners as well as shipments to customers. Manufactured finished goods consist primarily of build-to-order and build-to-stock products. All inventories are accounted for at the lower of cost or market. Inventory is written down based on excess and obsolete inventories determined primarily by future demand forecasts. Inventory write-downs are measured as the difference between the cost of the inventory and market, based upon assumptions about future demand, and are charged to the provision for inventory, which is a component of our cost of sales.

During fiscal 2011, due to the earthquake in Japan and resulting industry-wide component supply constraints, we made increased commitments to secure our near-term supply needs. The increase in purchase commitments in the third quarter of fiscal 2012 from the fourth quarter of fiscal 2011 was attributable to our effort to secure supply to meet forecasted demand. We are continuing to actively monitor and evaluate the flooding situation in Thailand which occurred in the first quarter of fiscal 2012**.** We have business continuity plans in place in order to minimize any potential impact to our supply chain as a result of the flooding in Thailand, which impacts we expect to continue for the next several quarters.

We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements and our commitment to securing manufacturing capacity. A significant portion of our reported purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. Our purchase commitments are for short-term product manufacturing requirements as well as for commitments to suppliers to secure manufacturing capacity.

We record a liability, included in other current liabilities, for firm, noncancelable, and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. The purchase commitments for inventory are expected to be primarily fulfilled within one year.

Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility to help ensure competitive lead times with the risk of inventory obsolescence because of rapidly changing technology and customer requirements. We believe the amount of our inventory and purchase commitments is appropriate for our revenue levels.

Financing Receivables and Guarantees We measure our net balance sheet exposure position related to our financing receivables and financing guarantees by reducing the total of gross financing receivables and financing guarantees by the associated allowances for credit loss and deferred revenue. As of April 28, 2012, our net balance sheet exposure position related to financing receivables and financing guarantees was as follows (in millions):

	April 28, 2012							
	FINANCING RECEIVABLES				FINANCING GUARANTEES			TOTAL
	Lease Receivables	Loan Receivables	Financed Service Contracts & Other	Total	Channel Partner	End-User Customers	Total	
Gross amount less unearned income	$ 3,153	$ 1,827	$ 2,628	$ 7,608	$ 283	$ 258	$ 541	$ 8,149
Allowances for credit loss	(252)	(118)	(11)	(381)				(381)
Deferred revenue	(81)	(134)	(1,888)	(2,103)	(209)	(224)	$ (433)	(2,536)
Net balance sheet exposure	$ 2,820	$ 1,575	$ 729	$ 5,124	$ 74	$ 34	$ 108	$ 5,232

Financing Receivables Gross financing receivables less unearned income have increased by 9% compared with the end of fiscal 2011. The change was primarily due to a 24% increase in loan receivables and a 10% increase in lease receivables, while growth in gross financed service contracts and other was flat compared with the end of fiscal 2011. We provide financing to certain end-user customers and channel partners to enable sales of our products, service, and networking solutions. These financing arrangements include leases, financed service contracts, and loans. Arrangements related to leases are generally collateralized by a security interest in the underlying assets. Lease receivables include sales-type and direct-financing leases. We also provide certain qualified customers financing for long-term service contracts, which primarily relate to technical support services and advanced services. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services. We expect to continue to expand the use of our financing programs in the near term.

Financing Guarantees In the normal course of business, third parties may provide financing arrangements to our customers and channel partners under financing programs. The financing arrangements to customers provided by third parties are related to leases and loans and typically have terms of up to three years. In some cases, we provide guarantees to third parties for these lease and loan arrangements. The financing arrangements to channel partners consist of revolving short-term financing provided by third parties, generally with payment terms ranging from 60 to 90 days. In certain instances, these financing arrangements result in a transfer of our receivables to the third party. The receivables are de-recognized upon transfer, as these transfers qualify as true sales, and we receive payments for the receivables from the third party based on our standard payment terms. These financing arrangements facilitate the working capital requirements of the channel partners, and in some cases we guarantee a portion of these arrangements. We could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. Historically, our payments under such arrangements have been immaterial. Where we provide a guarantee, we defer the revenue associated with the channel partner and end-user financing arrangement in accordance with revenue recognition policies, or we record a liability for the fair value of the guarantees. In either case, the deferred revenue is recognized as revenue when the guarantee is removed.

Deferred Revenue Related to Financing Receivables and Guarantees The majority of the deferred revenue in the preceding table is related to financed service contracts. The majority of the revenue related to financed service contracts, which primarily relates to technical support services, is deferred and included in deferred service revenue. The revenue related to financed service contracts is recognized ratably over period during which the related services are to be performed. A portion of the revenue related to lease and loan receivables is also deferred and included in deferred product revenue based on revenue recognition criteria.

Borrowings

Senior Notes The following table summarizes the principal amount of our senior notes (in millions):

	April 28, 2012	July 30, 2011
Senior notes:		
Floating-rate notes, due 2014	$ 1,250	$ 1,250
1.625% fixed-rate notes, due 2014	2,000	2,000
2.90% fixed-rate notes, due 2014	500	500
5.50% fixed-rate notes, due 2016	3,000	3,000
3.15% fixed-rate notes, due 2017	750	750
4.95% fixed-rate notes, due 2019	2,000	2,000
4.45% fixed-rate notes, due 2020	2,500	2,500
5.90% fixed-rate notes, due 2039	2,000	2,000
5.50% fixed-rate notes, due 2040	2,000	2,000
Total	$ 16,000	$ 16,000

Interest is payable semiannually on each class of the senior fixed-rate notes, each of which is redeemable by us at any time, subject to a make-whole premium. Interest is payable quarterly on the floating-rate notes. We were in compliance with all debt covenants as of April 28, 2012.

Commercial Paper In fiscal 2011 we established a short-term debt financing program of up to $3.0 billion through the issuance of commercial paper notes. As of April 28, 2012 we had no outstanding commercial paper outstanding under this program. As of July 30, 2011, we had commercial paper notes of $500 million outstanding under this program.

Other Notes and Borrowings Other notes and borrowings include notes and credit facilities with a number of financial institutions that are available to certain of our foreign subsidiaries. The amount of borrowings outstanding under these arrangements was $83 million and $88 million as of April 28, 2012 and July 30, 2011, respectively.

Credit Facility On February 17, 2012, we entered into a credit agreement with certain institutional lenders that provides for a $3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America s prime rate as announced from time to time or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on our senior debt credit ratings as published by Standard & Poor s Financial Services, LLC and Moody s Investors Service, Inc. The credit agreement requires that we comply with certain covenants, including that we maintain an interest coverage ratio as defined in the agreement. As of April 28, 2012, we were in compliance with the required interest coverage ratio and the other covenants of, and we had not borrowed any funds under the credit facility.

We may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $2.0 billion and/or extend the expiration date of the credit facility up to February 17, 2019.

This credit facility replaces our prior credit facility that was entered into on August 17, 2007, which was terminated in connection with our entering into the new credit facility.

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Deferred Revenue

The following table presents the breakdown of deferred revenue (in millions):

	April 28, 2012	July 30, 2011	Increase (Decrease)
Service	$ 8,778	$ 8,521	$ 257
Product	3,870	3,686	184
Total	$ 12,648	$ 12,207	$ 441
Reported as:			
Current	$ 8,568	$ 8,025	$ 543
Noncurrent	4,080	4,182	(102)
Total	$ 12,648	$ 12,207	$ 441

The increase in deferred service revenue reflects increased new contract initiations during the first nine months of fiscal 2012, partially offset by the ongoing amortization of deferred service revenue in the first nine months of fiscal 2012. The increase in deferred product revenue was primarily related to increased two-tier deferred revenue, which in turn was due to improved shipment linearity to two-tier partners during the third quarter of fiscal 2012. This increase was partially offset by decreased deferred revenue related to our financing arrangements.

Contractual Obligations

Operating Leases

We lease office space in several U.S. locations. Outside the United States, larger leased sites are located in Australia, Belgium, China, Germany, India, Israel, Italy, Japan, Norway, and the United Kingdom. We also lease equipment and vehicles. The future minimum lease payments under all our noncancelable operating leases with an initial term in excess of one year as of April 28, 2012 were $1.3 billion.

Commitments

Insieme Networks, Inc.

In the third quarter of fiscal 2012, we made an investment in Insieme Networks, Inc. (Insieme), an early-stage company focused on research and development in the data center market. This investment includes $100 million of funding and a license to certain of our technology. As a result of this investment, we own approximately 90% of Insieme and have consolidated the results of Insieme in our Consolidated Financial Statements beginning in the third quarter of fiscal 2012.

In connection with this investment, we and Insieme have entered into an option agreement that provides us the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders can require us to purchase their shares upon the occurrence of certain events. If we acquire the remaining interests of Insieme, the noncontrolling interest holders are eligible to receive two milestone payments, which will be determined using agreed-upon formulas based on revenue for certain of Insieme s products. We will begin recognizing the amounts due under the milestone payments when it is determined that such payments are probable of being earned, which may be in fiscal 2014. When such a determination has been made, the milestone payments will then be recorded as compensation expense by us based on an estimate of the fair value of the amounts probable of being earned, pursuant to a vesting schedule. Subsequent changes to the fair value of the amounts probable of being earned and the continued vesting will result in adjustments to the recorded compensation expense. The maximum amount that could be recorded as compensation expense by us is approximately $750 million. The milestone payments, if earned, are expected to be paid primarily during fiscal 2016 and fiscal 2017.

Other Commitments

In connection with our business combinations and asset purchases, we have agreed to pay certain additional amounts contingent upon the achievement of agreed-upon technology, development, product development, or other milestones or continued employment with us of certain employees of acquired entities. See Note 12 to the Consolidated Financial Statements. We also have entered into an agreement to acquire NDS Group Ltd. See Note 3 to the Consolidated Financial Statements.

We also have certain funding commitments primarily related to our investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were $136 million as of April 28, 2012 compared with $192 million as of July 30, 2011.

Off-Balance Sheet Arrangements

We consider our investments in unconsolidated variable interest entities to be off-balance sheet arrangements. In the ordinary course of business, we have investments in privately held companies and provide financing to certain customers. These privately held companies and customers may be considered to be variable interest entities. We evaluate on an ongoing basis our investments in these privately held companies and customer financings, and we have determined that as of April 28, 2012 there were no material unconsolidated variable interest entities.

VCE is a joint venture that we formed in fiscal 2010 with EMC, with investments from VMware and Intel. VCE helps organizations leverage best-in-class technologies and disciplines from Cisco, EMC, and VMware to enable the transformation to cloud computing.

As of April 28, 2012, our cumulative gross investment in the combined VCE entity was approximately $322 million, inclusive of accrued interest, and our ownership percentage was approximately 35%. During the nine months ended April 28, 2012, we invested approximately $211 million in VCE. We account for our investment in VCE under the equity method, and accordingly our carrying value in VCE was approximately $123 million, which reflects our cumulative share of VCE s losses. Over the next 12 months, as VCE scales its operations, we expect that we will make additional investments in VCE and we may incur additional losses, in proportion to our share.

From time to time, EMC and Cisco may enter into guarantee agreements on behalf of VCE to indemnify third parties, such as customers, for monetary damages. Such guarantees were not material as of April 28, 2012.

On an ongoing basis, we reassess our investments in privately held companies and customer financings to determine if they are variable interest entities and if we would be regarded as the primary beneficiary pursuant to the applicable accounting guidance. As a result of this ongoing assessment, we may be required to make additional disclosures or consolidate these entities. Because we may not control these entities, we may not have the ability to influence these events.

We provide financing guarantees, which are generally for various third-party financing arrangements extended to our channel partners and end-user customers. We could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. See the previous discussion of these financing guarantees under Financing Receivables and Guarantees.

Securities Lending

We periodically engage in securities lending activities with certain of our available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the nine months ended April 28, 2012 was approximately $0.4 billion. The average daily balance of securities lending for the nine months ended April 30, 2011 was approximately $1.9 billion. We require collateral equal to at least 102% of the fair market value of the loaned security and that the collateral be in the form of cash or liquid, high-quality assets. We engage in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify us against any collateral losses. We did not experience any losses in connection with the secured lending of securities during the periods presented. As of April 28, 2012 and July 30, 2011, we had no outstanding securities lending transactions. We believe these arrangements do not present a material risk or impact to our liquidity requirements.

Stock Repurchase Program and Dividends

In September 2001, our Board of Directors authorized a stock repurchase program. As of April 28, 2012, our Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program, and the remaining authorized repurchase amount was $7.7 billion with no termination date. The stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

Nine Months Ended April 28, 2012	**Shares Repurchased**	**Weighted-Average Price per Share**	**Amount Repurchased**
Cumulative balance at July 30, 2011	3,478	$ 20.64	$ 71,773
Repurchase of common stock under the stock repurchase program	153	16.66	2,560

Cumulative balance at April 28, 2012	3,631	$	20.47	$	74,333

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On February 7, 2012 our Board of Directors declared a quarterly dividend of $0.08 per common share, a two-cent increase over each of the previous two quarter s per-share dividend payment amounts, which was paid on April 25, 2012 to all shareholders of record as of the close of business on April 5, 2012. During the first nine months of fiscal 2012, cash dividends of $0.20 per share, or $1.1 billion, were declared on our outstanding common stock and paid during the same period. Any future dividends will be subject to the approval of our Board of Directors.

Liquidity and Capital Resource Requirements

Based on past performance and current expectations, we believe our cash and cash equivalents, investments, cash generated from operations, and ability to access capital markets and committed credit lines will satisfy, through at least the next 12 months, our liquidity requirements, both in total and domestically, including the following: working capital needs, capital expenditures, investment requirements, pending acquisitions, stock repurchases, cash dividends, contractual obligations, commitments, principal and interest payments on debt, future customer financings, and other liquidity requirements associated with our operations. There are no other transactions, arrangements, or relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the liquidity and the availability of, as well as our requirements for, capital resources.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial position is exposed to a variety of risks, including interest rate risk, equity price risk, and foreign currency exchange risk.

Interest Rate Risk

Fixed Income Securities

We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. We may utilize derivative instruments designated as hedging instruments to achieve our investment objectives. We had no outstanding hedging instruments for our fixed income securities as of April 28, 2012. Our fixed income investments are held for purposes other than trading. Our fixed income investments are not leveraged as of April 28, 2012. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. As of April 28, 2012, approximately 80% of our fixed income securities balance consists of U.S. government and U.S. government agency securities. We believe the overall credit quality of our portfolio is strong.

Debt

As of April 28, 2012, we had $16.0 billion in principal amount of senior notes outstanding, which consisted of $1.25 billion floating-rate notes and $14.75 billion fixed-rate notes. The carrying amount of the senior notes was $16.3 billion, and the related fair value, which is based on market prices, was $18.2 billion. As of April 28, 2012, a hypothetical 50 basis points increase or decrease in market interest rates would change the fair value of the fixed-rate debt, excluding the $4.25 billion of hedged debt, by a decrease or increase of $0.6 billion, respectively. However, this hypothetical change in interest rates would not impact the interest expense on the unhedged portion of the fixed-rate debt.

Equity Price Risk

The fair value of our equity investments in publicly traded companies is subject to market price volatility. We may hold equity securities for strategic purposes or to diversify our overall investment portfolio. Our equity portfolio consists of securities with characteristics that most closely match the Standard & Poor s 500 Index or NASDAQ Composite Index. These equity securities are held for purposes other than trading. To manage our exposure to changes in the fair value of certain equity securities, we may enter into equity derivatives designated as hedging instruments.

Publicly Traded Equity Securities

The following tables present the hypothetical fair values of publicly traded equity securities as a result of selected potential decreases and increases in the price of each equity security in the portfolio, excluding hedged equity securities, if any. Potential fluctuations in the price of each equity security in the portfolio of plus or minus 10%, 20%, and 30% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of April 28, 2012 and July 30, 2011 are as follows (in millions):

	VALUATION OF SECURITIES GIVEN AN X% DECREASE IN EACH STOCK S PRICE				VALUATION OF SECURITIES GIVEN AN X% INCREASE IN EACH STOCK S PRICE		
As of April 28, 2012	**(30%)**	**(20%)**	**(10%)**	**Fair Value**	**10%**	**20%**	**30%**
Publicly traded equity securities	$ 1,060	$ 1,211	$ 1,363	$ 1,514	$ 1,665	$ 1,817	$ 1,968

As of July 30, 2011	**(30%)**	**(20%)**	**(10%)**	**Fair Value**	**10%**	**20%**	**30%**
Publicly traded equity securities	$ 953	$ 1,089	$ 1,225	$ 1,361	$ 1,497	$ 1,633	$ 1,769

There were no material impairment charges on our investments in publicly traded equity securities during the first nine months of either fiscal 2012 or 2011.

Investments in Privately Held Companies

We have also invested in privately held companies. These investments are recorded in other assets in our Consolidated Balance Sheets and are accounted for using primarily either the cost or the equity method. As of April 28, 2012, the total carrying amount of our investments in privately held companies was $841 million, compared with $796 million at July 30, 2011. Some of the privately held companies in which we invested are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We could lose our entire investment in these companies. Our evaluation of investments in privately held companies is based on the fundamentals of the businesses invested in, including among other factors, the nature of their technologies and potential for financial return. Our impairment charges on investments in privately held companies were $15 million and $1 million for the third quarter of fiscal 2012 and 2011, respectively, and were $17 million and $6 million during the first nine months of fiscal 2012 and 2011, respectively.

Foreign Currency Exchange Risk

Our foreign exchange forward and option contracts are summarized as follows (in millions):

	April 28, 2012		July 30, 2011	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Forward contracts:				
Purchased	$ 1,001	$ 14	$ 3,722	$ 9
Sold	$ 923	$ (2)	$ 1,225	$ (10)
Option contracts:				
Purchased	$ 3,394	$ 3	$ 1,547	$ 63
Sold	$ 1,137	$ (10)	$ 1,577	$ (12)

We conduct business globally in numerous currencies. The direct effect of foreign currency fluctuations on sales has not been material because our sales are primarily denominated in U.S. dollars. However, if the U.S. dollar strengthens relative to other currencies, such strengthening could have an indirect effect on our sales to the extent it raises the cost of our products to non-U.S. customers and thereby reduces demand. A weaker U.S. dollar could have the opposite effect. However, the precise indirect effect of currency fluctuations is difficult to measure or predict because our sales are influenced by many factors in addition to the impact of such currency fluctuations.

Approximately 70% of our operating expenses are U.S.-dollar denominated. Foreign currency fluctuations, net of hedging, increased our operating expenses by approximately 1% in the first nine months of fiscal 2012 compared with the corresponding period of fiscal 2011. To reduce variability in operating expenses and service cost of sales caused by non-U.S.-dollar denominated operating expenses and costs, we hedge certain forecasted foreign currency transactions with currency options and forward contracts. These hedging programs are not designed to provide foreign currency protection over long time horizons. In designing a specific hedging approach, we consider several factors, including offsetting exposures, significance of exposures, costs associated with entering into a particular hedge instrument, and potential effectiveness of the hedge. The gains and losses on foreign exchange contracts mitigate the effect of currency movements on our operating expenses and service cost of sales.

We also enter into foreign exchange forward and option contracts to reduce the short-term effects of foreign currency fluctuations on receivables, investments, and payables that are denominated in currencies other than the functional currencies of the entities. The market risks associated with these foreign currency receivables, investments, and payables relate primarily to variances from our forecasted foreign currency transactions and balances. Our forward and option contracts generally have the following maturities:

		Maturities
Forward and option contracts	forecasted transactions related to operating expenses and service cost of sales	Up to 18 months
Forward contracts	current assets and liabilities	Up to 3 months
Forward contracts	net investments in foreign subsidiaries	Up to 6 months
Forward contracts	long-term customer financings	Up to 2 years
Forward contracts	investments	Up to 2 years

We do not enter into foreign exchange forward or option contracts for trading purposes.

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Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Based on our management s evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our third quarter of fiscal 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Brazilian authorities have investigated our Brazilian subsidiary and certain of our current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes and related penalties. In addition to claims asserted during prior fiscal years by Brazilian federal tax authorities, tax authorities from the Brazilian state of Sao Paulo asserted similar claims on the same legal basis during the second quarter of fiscal 2011.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2007 and the asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregated to approximately $429 million for the alleged evasion of import taxes, approximately $1.0 billion for interest, and approximately $2.0 billion for various penalties, all determined using an exchange rate as of April 28, 2012. We have completed a thorough review of the matter and believe the asserted tax claims against us are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for our alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against us and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years.

On March 31, 2011 and April 12, 2011, 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 an amended consolidated complaint was filed on December 2, 2011. The consolidated action is purportedly brought on behalf of purchasers of Cisco s publicly traded securities between February 3, 2010 and May 11, 2011. Plaintiffs allege that defendants made false and misleading statements, purport to assert claims for violations of the federal securities laws, and seek unspecified compensatory damages and other relief. We believe the claims are without merit and intend to defend the actions vigorously. While we believe there is no legal basis for liability, due to the uncertainty surrounding the litigation process, we are unable to reasonably estimate a range of loss, if any, at this time.

Beginning on April 8, 2011, a number of purported shareholder derivative lawsuits were filed in both the United States District Court for the Northern District of California and the California Superior Court for the County of Santa Clara against our Board of Directors and several of our officers. The federal lawsuits have been consolidated in the Northern District of California. Plaintiffs in both the federal and state derivative actions allege that the Board allowed certain officers to make allegedly false and misleading statements. The complaint includes claims for violation of the federal securities laws, breach of fiduciary duties, waste of corporate assets, unjust enrichment, and violations of the California Corporations Code. The complaint seeks compensatory damages, disgorgement, and other relief.

In addition, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows. For additional information regarding intellectual property litigation, see Part II, Item 1A. Risk Factors We may be found to infringe on intellectual property rights of others herein.

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ITEM 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended July 30, 2011.

OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, WHICH MAY ADVERSELY AFFECT OUR STOCK PRICE

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of numerous factors, some of which may contribute to more pronounced fluctuations in an uncertain global economic environment. These factors include:

- Fluctuations in demand for our products and services, especially with respect to telecommunications service providers and Internet businesses, in part due to changes in the global economic environment
- Changes in sales and implementation cycles for our products and 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 and different business models from various geographic regions
- The overall movement toward industry consolidation among both our competitors and our customers
- The introduction and market acceptance of new technologies and products and our success in new and evolving markets, including in our newer product categories such as data center and collaboration and in emerging technologies, as well as the adoption of new standards
- Variations in sales channels, product costs, or mix of products sold
- The timing, size, and mix of orders from customers
- Manufacturing and customer lead times
- Fluctuations in our gross margins, and the factors that contribute to such fluctuations, as described below
- The ability of our customers, channel partners, contract manufacturers and suppliers to obtain financing or to fund capital expenditures, especially during a period of global credit market disruption or in the event of customer, channel partner, contract manufacturer or supplier financial problems

- Share-based compensation expense
- 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 Consolidated Financial Statements
- How well we execute on our strategy and operating plans and the impact of changes in our business model that could result in significant restructuring charges
- Our ability to achieve targeted cost reductions
- Benefits anticipated from our investments in engineering, sales and manufacturing activities
- Changes in tax laws, tax regulations and / or accounting rules

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 that could adversely affect our stock price.

OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED BY UNFAVORABLE ECONOMIC AND MARKET CONDITIONS AND THE UNCERTAIN GEOPOLITICAL ENVIRONMENT

Challenging economic conditions worldwide have from time to time contributed, and may continue to contribute, to slowdowns in the communications and networking industries at large, as well as in specific segments and markets in which we operate, resulting in:

- Reduced demand for our products as a result of continued constraints on IT-related capital spending by our customers, particularly service providers, and other customer markets as well
- Increased price competition for our products, not only from our competitors but also as a consequence of customers disposing of unutilized products
- Risk of excess and obsolete inventories
- Risk of supply constraints
- Risk of excess facilities and manufacturing capacity
- Higher overhead costs as a percentage of revenue and higher interest expense

Instability in the global credit markets, including the recent European economic and financial turmoil related to sovereign debt issues in certain countries, the instability in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs, may continue to put pressure on global economic conditions. The world has recently experienced a global macroeconomic downturn, and if global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

Our operating results in one or more segments may also be affected by uncertain or changing economic conditions particularly germane to that segment or to particular customer markets within that segment. For example, during fiscal 2011 we experienced a decrease in spending by our public sector customers in almost every developed market around the world, and we continue to see decreases in spending within certain categories of our public sector customer market.

WE HAVE BEEN INVESTING IN PRIORITIES, INCLUDING OUR FOUNDATIONAL PRIORITIES, AND IF THE RETURN ON THESE INVESTMENTS IS LOWER OR DEVELOPS MORE SLOWLY THAN WE EXPECT, OUR OPERATING RESULTS MAY BE HARMED

We have been realigning and are dedicating resources to focus on certain priorities, such as leadership in our core routing, switching and services, including security and mobility solutions; collaboration; data center virtualization and cloud; video; and architectures for business transformation. However, the return on our investments in such priorities may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments (including if our selection of areas for investment does not play out as we expect), or if the achievement of these benefits is delayed, our operating results may be adversely affected.

OUR REVENUE FOR A PARTICULAR PERIOD IS DIFFICULT TO PREDICT, AND A SHORTFALL IN REVENUE MAY HARM OUR OPERATING RESULTS

As a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict, especially in light of the recent global economic downturn and related market uncertainty. Our net sales may grow at a slower rate than in past periods or may decline, which occurred in fiscal 2009. Our ability to meet financial expectations could also be adversely affected if the nonlinear sales pattern seen in some of our past quarters recurs in future periods. We have experienced periods of time during which shipments have exceeded net bookings or manufacturing issues have delayed shipments, leading to nonlinearity in shipping patterns. In addition to making it difficult to predict revenue for a particular period, nonlinearity in shipping can increase costs, because irregular shipment patterns result in periods of underutilized capacity and periods in which overtime expenses may be incurred, as well as in potential additional inventory management-related costs. In addition, to the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods in which we and our contract manufacturers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters occur and are not remediated within the same quarter.

The timing of large orders can also have a significant effect on our business and operating results from quarter to quarter, primarily in the United States and in emerging countries. From time to time, we receive large orders that have a significant effect on our operating results in the period in which the order is recognized as revenue. The timing of such orders is difficult to predict, and the timing of revenue recognition from such orders may affect period to period changes in net sales. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue.

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Inventory management remains an area of focus. We experienced longer than normal lead times on several of our products in fiscal 2010. This was attributable in part to increasing demand driven by the improvement in our overall markets, and similar to what has happened in the industry, the longer than normal lead time extensions also stemmed from supplier constraints based upon their labor and other actions taken during the global economic downturn. Additionally, the earthquake and tsunami in Japan during the third quarter of fiscal 2011 and the flooding in Thailand in the first quarter of fiscal 2012 resulted in industry wide component supply constraints. We continue to see challenges at some of our component suppliers. Longer manufacturing lead times in the past have caused some customers to place the same order multiple times within our various sales channels and to cancel the duplicative orders upon receipt of the product, or to place orders with other vendors with shorter manufacturing lead times. Such multiple ordering (along with other factors) or risk of order cancellation may cause difficulty in predicting our sales and, as a result, could impair our ability to manage parts inventory effectively. In addition, our efforts to improve manufacturing lead-time performance 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. In addition, when facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations which in turn contribute to an increase in purchase commitments. Increases in our purchase commitments to shorten lead times could also lead to excess and obsolete inventory charges if the demand for our products is less than our expectations.

We plan our operating expense levels based primarily 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 because 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 TO VARY OVER TIME, AND OUR LEVEL OF PRODUCT GROSS MARGIN MAY NOT BE SUSTAINABLE

Our level of product gross margins declined in fiscal 2011 and may continue to decline and be adversely affected by numerous factors, including:

- Changes in customer, geographic, or product mix, including mix of configurations within each product group
- Introduction of new products, including products with price-performance advantages
- Our ability to reduce production costs
- Entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development
- Sales discounts
- Increases in material, labor or other manufacturing-related costs, which could be significant especially during periods of supply constraints
- Excess inventory and inventory holding charges
- Obsolescence charges

- Changes in shipment volume
- The timing of revenue recognition and revenue deferrals
- Increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates
- Lower than expected benefits from value engineering
- Increased price competition, including competitors from Asia, especially from China
- Changes in distribution channels
- Increased warranty costs
- How well we execute on our strategy and operating plans

Changes in service gross margin may result from various factors such as changes in the mix between technical support services and advanced services, as well as the timing of technical support service contract initiations and renewals and the addition of personnel and other resources to support higher levels of service business in future periods.

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SALES TO THE SERVICE PROVIDER MARKET ARE ESPECIALLY VOLATILE, AND WEAKNESS IN SALES ORDERS FROM THIS INDUSTRY MAY HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION

Sales to the service provider market have been characterized by large and sporadic purchases, especially relating to our router sales and sales of certain products in our newer product categories such as Data Center, Collaboration, and Service Provider Video, in addition to longer sales cycles. In the past, we have experienced significant weakness in sales to service providers over certain extended periods of time as market conditions have fluctuated. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures; the availability of funding; and the extent to which service providers are affected by regulatory, economic, and business conditions in the country of operations. Weakness in orders from this industry, including as a result of any slowdown in capital expenditures by service providers (which may be more prevalent during a global economic downturn or periods of economic uncertainty), could have a material adverse effect on our business, operating results, and financial condition. For example, during fiscal 2009, we experienced a slowdown in service provider capital expenditures globally, and in fiscal 2011 we experienced a slowdown in certain segments of this market, including in capital expenditures by some service provider customers and in sales of our traditional cable set-top boxes in our then United States and Canada segment. Such slowdowns may continue or recur in future periods. Orders from this industry could decline for many reasons other than the competitiveness of our products and services within their respective markets. For example, in the past, many of our service provider customers have been materially and adversely affected by slowdowns in the general economy, by overcapacity, by changes in the service provider market, by regulatory developments, and by constraints on capital availability, resulting in business failures and substantial reductions in spending and expansion plans. These conditions have materially harmed our business and operating results in the past, and some of these or other conditions in the service provider market could affect our business and operating results in any future period. Finally, service provider customers typically have longer implementation cycles; require a broader range of services, including design services; demand that vendors take on a larger share of risks; often require 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.

DISRUPTION OF OR CHANGES IN OUR DISTRIBUTION MODEL COULD HARM OUR 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 revenue and gross margins could be adversely affected.

A substantial portion of our products and services is sold through our channel partners, and the remainder is sold through direct sales. Our channel partners include systems integrators, service providers, other resellers, distributors, and retail partners. Systems integrators and service providers typically sell directly to end users and often provide system installation, technical support, professional services, and other support services in addition to network equipment sales. Systems integrators also typically integrate our products into an overall solution, and a number of service providers are also systems integrators. Distributors stock inventory and typically sell to systems integrators, service providers, and other resellers. In addition, virtual home products are generally sold through distributors and retail partners. We refer to sales through distributors and retail partners as our two-tier system of sales to the end customer. Revenue from distributors and retail partners generally is recognized based on a sell-through method using information provided by them. These distributors and retail partners are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. If sales through indirect channels increase, this may lead to greater difficulty in forecasting the mix of our products and, to a degree, the timing of orders from our customers.

Historically, we have seen fluctuations in our gross margins based on changes in the balance of our distribution channels. Although variability to date has not been significant, there can be no assurance that changes in the balance of our distribution model in future periods would not have an adverse effect on our gross margins and profitability.

Some factors could result in disruption of or changes in our distribution model, which could harm our sales and margins, including the following:

- We compete with some of our channel partners, including through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products or otherwise compete with them

- Some of our channel partners may demand that we absorb a greater share of the risks that their customers may ask them to bear

Some of our channel partners may have insufficient financial resources and may not be able to withstand changes and challenges in business conditions

Revenue from indirect sales could suffer if our distributors financial condition or operations weaken

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In addition, we depend on our channel partners globally to comply with applicable regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition.

THE MARKETS IN WHICH WE COMPETE ARE INTENSELY COMPETITIVE, WHICH COULD ADVERSELY AFFECT OUR ACHIEVEMENT OF REVENUE GROWTH

The markets in which we compete are characterized by rapid change, converging technologies, and a migration to networking and communications solutions that offer relative advantages. These market factors represent a competitive threat to us. We compete with numerous vendors in each product category. The overall number of our competitors providing niche product solutions may increase. Also, the identity and composition of competitors may change as we increase our activity in newer product categories such as data center and collaboration and in our priorities. As we continue to expand globally, we may see new competition in different geographic regions. In particular, we have experienced price-focused competition from competitors in Asia, especially from China, and we anticipate this will continue. Our competitors include Alcatel-Lucent; Arista Networks, Inc.; ARRIS Group, Inc.; Aruba Networks, Inc.; Avaya Inc.; Brocade Communications Systems, Inc.; Check Point Software Technologies Ltd.; Citrix Systems, Inc.; Dell Inc.; D-Link Corporation; LM Ericsson Telephone Company; Extreme Networks, Inc.; F5 Networks, Inc.; Fortinet, Inc.; Hewlett-Packard Company; Huawei Technologies Co., Ltd.; International Business Machines Corporation; Juniper Networks, Inc.; LogMeIn, Inc.; Meru Networks, Inc.; Microsoft Corporation; Motorola Solutions, Inc.; NETGEAR, Inc.; Polycom, Inc.; Riverbed Technology, Inc.; and Symantec Corporation; among others.

Some of these companies compete across many of our 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 our products are regularly formed. In addition, some of our competitors may have greater resources, including technical and engineering resources, than we do. As we expand into new markets, we will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets. We also sometimes face competition from resellers and distributors of our products. Companies with whom we have strategic alliances in some areas may be competitors in other areas.

For example, the enterprise data center is undergoing a fundamental transformation arising from the convergence of technologies, including computing, networking, storage, and software, that previously were siloed. Due to several factors, including the availability of highly scalable and general purpose microprocessors, application-specific integrated circuits offering advanced services, standards based protocols, cloud computing and virtualization, the application of these converging technologies is spanning multiple, previously independent, technology segments. Also, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them to provide end-to-end technology solutions for the enterprise data center. As a result of all of these developments, we face greater competition in the development and sale of enterprise data center technologies, including competition from entities that are among our long-term strategic alliance partners. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us.

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 and communications products and services
- Product performance
- Price
- The ability to introduce new products, including products with price-performance advantages
- The ability to reduce production costs

- The ability to provide value-added features such as security, reliability, and investment protection
- Conformance to standards
- Market presence
- The ability to provide financing
- Disruptive technology shifts and new business models

We also face competition from customers to which we license or supply technology and suppliers from which we transfer technology. The inherent nature of networking requires interoperability. As such, we must cooperate and at the same time compete with many companies. Any inability to effectively manage these complicated relationships with customers, suppliers, and strategic alliance partners could have a material adverse effect on our business, operating results, and financial condition and accordingly affect our chances of success.

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OUR INVENTORY MANAGEMENT RELATING TO OUR SALES TO OUR TWO-TIER DISTRIBUTION CHANNEL IS COMPLEX, AND EXCESS INVENTORY MAY HARM OUR GROSS MARGINS

We must manage our inventory relating to sales to our distributors and retail partners effectively, because inventory held by them could affect our results of operations. Our distributors and retail partners may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. They also may adjust their orders in response to the supply of our products and the products of our competitors that are available to them, and in response to seasonal fluctuations in end-user demand. Revenue to our distributors and retail partners generally is recognized based on a sell-through method using information provided by them, and they are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling price, and participate in various cooperative marketing programs. 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. When facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations. If we ultimately determine that we have excess inventory, we may have to reduce our prices and write down inventory, which in turn could result in lower gross margins.

SUPPLY CHAIN ISSUES, INCLUDING FINANCIAL PROBLEMS OF CONTRACT MANUFACTURERS OR COMPONENT SUPPLIERS, OR A SHORTAGE OF ADEQUATE COMPONENT SUPPLY OR MANUFACTURING CAPACITY THAT INCREASED OUR COSTS OR CAUSED A DELAY IN OUR ABILITY TO FULFILL ORDERS, COULD HAVE AN ADVERSE IMPACT ON OUR BUSINESS AND OPERATING RESULTS, AND OUR FAILURE TO ESTIMATE CUSTOMER DEMAND PROPERLY MAY RESULT IN EXCESS OR OBSOLETE COMPONENT SUPPLY, WHICH COULD ADVERSELY AFFECT OUR GROSS MARGINS

The fact that we do not own or operate the bulk of our manufacturing facilities and that we are reliant on our extended supply chain could have an adverse impact on the supply of our products and on our business and operating results:

- Any financial problems of either contract manufacturers or component suppliers could either limit supply or increase costs
- Reservation of manufacturing capacity at our contract manufacturers by other companies, inside or outside of our industry, could either limit supply or increase costs

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; a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs; or a decrease in demand for our 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 used, our gross margins could decrease. We experienced longer than normal lead times on several of our products in fiscal 2010. The earthquake and tsunami in Japan during the third quarter of fiscal 2011 and the flooding in Thailand in the first quarter of fiscal 2012 resulted in industry-wide component supply constraints. We continue to see challenges at some of our component suppliers. Although we have generally secured additional supply or taken other mitigation actions, if the conditions resulting from the situations in Japan or Thailand worsen, these conditions could have a material adverse effect on our business, results of operations, and financial condition. See the risk factor above entitled Our revenue for a particular period is difficult to predict, and a shortfall in revenue may harm our operating results.

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Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. We have experienced component shortages in the past, including shortages caused by manufacturing process issues, that have affected our operations. We may in the future experience a shortage of certain component parts as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, or strong demand in the industry for those parts. A return to growth in the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and component demands within specific product categories and to establish optimal component levels and manufacturing capacity, especially for labor-intensive components, components for which we purchase a substantial portion of the supply, or re-ramping manufacturing capacity for highly complex products. For example, during fiscal 2010, we experienced longer than normal lead times on several of our products. This was attributable in part to increasing demand driven by the improvement in our overall markets, and similar to what is happening in the industry, the longer than normal lead time extensions also stemmed from supplier constraints based upon their labor and other actions taken during the global economic downturn. If shortages or delays persist or worsen, the price of these components may increase, or the components may not be available at all, and we may also encounter shortages if we do not accurately anticipate our needs. 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 revenue and gross margins could suffer until other sources can be developed. Our operating results would also be adversely affected if, anticipating greater demand than actually develops, we commit to the purchase of more components than we need, which is more likely to occur in a period of demand uncertainties such as we are currently experiencing. 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, and a global economic downturn and related market uncertainty could negatively impact the availability of components from one or more of these sources, especially during times such as we have recently seen when there are supplier constraints based on labor and other actions taken during economic downturns. 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 in the future:

New markets in which we participate may grow quickly, which may make it difficult to quickly obtain significant component capacity

As we acquire companies and new technologies, we may be dependent, at least initially, on unfamiliar supply chains or relatively small supply partners

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

Manufacturing capacity and component supply constraints could continue to be significant issues for us. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to improve manufacturing lead-time performance and to help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. When facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations which in turn contribute to an increase in purchase commitments. For example, the earthquake in Japan during the third quarter of fiscal 2011 resulted in industry wide component supply constraints, and approximately $300 million of our purchase commitment increase was attributable to us securing supply components as we made commitments to secure our near term supply needs. In addition, flooding in Thailand in the first quarter of fiscal 2012 may impact our ability to procure certain components in a timely fashion, which in turn could require us to increase purchase commitments. Increases in our purchase commitments to shorten lead times could also lead to excess and obsolete inventory charges if the demand for our products is less than our expectations. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete components that could adversely affect our gross margins. For additional information regarding our purchase commitments with contract manufacturers and suppliers, see Note 12 to the Consolidated Financial Statements contained in this report.

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WE DEPEND UPON THE DEVELOPMENT OF NEW PRODUCTS AND ENHANCEMENTS TO EXISTING PRODUCTS, AND IF WE FAIL TO PREDICT AND RESPOND TO EMERGING TECHNOLOGICAL TRENDS AND CUSTOMERS CHANGING NEEDS, OUR OPERATING RESULTS AND MARKET SHARE MAY SUFFER

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 production costs of existing products. We believe the industry is evolving to enable personal and business process collaboration enabled by networked technologies. As such, many of our strategic initiatives and investments are aimed at meeting the requirements that a network capable of multiple-party, collaborative interaction would demand, and the investments we have made and our architectural approach are designed to enable the increased use of the network as the platform for all forms of communications and IT. For example, in fiscal 2009 we launched our Cisco Unified Computing System, our next-generation enterprise data center platform architected to unite computing, network, storage access, and virtualization resources in a single system, which is designed to address the fundamental transformation occurring in the enterprise data center. Cisco Unified Computing System is one of several priorities on which we are focusing resources.

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, including the investments we have been making in our priorities to developing new products before knowing whether our investments will result in products the market will accept. In particular, if our model of the evolution of networking to collaborative systems does not emerge as we believe it will, or if the industry does not evolve as we believe it will, or if our strategy for addressing this evolution is not successful, many of our strategic initiatives and investments may be of no or limited value. Furthermore, we may not execute successfully on that vision because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and loss of market share, net sales, and earnings. The success of new products depends 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, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. The products and technologies in our newer product categories such as Data Center and Collaboration as well as those in our Other Products category that we identify as emerging technologies may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or new products.

CHANGES IN INDUSTRY STRUCTURE AND MARKET CONDITIONS COULD LEAD TO CHARGES RELATED TO DISCONTINUANCES OF CERTAIN OF OUR PRODUCTS OR BUSINESSES AND ASSET IMPAIRMENTS

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 dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our 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. Although in certain instances our supply agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, our loss contingencies may include liabilities for contracts that we cannot cancel with contract manufacturers and suppliers. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings.

In fiscal 2011 we announced and began implementing restructuring activities designed to lower our operating costs and to simplify our operating model and concentrate our focus on selected foundational priorities. We have incurred in the fourth quarter of fiscal 2011 and the first nine months of fiscal 2012 and may continue to incur in the near term significant restructuring charges as a result of these activities. The changes to our business model may be disruptive, and the revised model that we adopt may not be more efficient or effective than the aspects of our business model that are being revised. Our restructuring activities, including any related charges and the impact of the related headcount reductions, could have a material adverse effect on our business, operating results, and financial condition.

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OVER THE LONG TERM WE INTEND TO INVEST IN ENGINEERING, SALES, SERVICE, MARKETING AND MANUFACTURING ACTIVITIES, AND THESE INVESTMENTS MAY ACHIEVE DELAYED, OR LOWER THAN EXPECTED, BENEFITS WHICH COULD HARM OUR OPERATING RESULTS

While we intend to focus on managing our costs and expenses, over the long term, we also intend to invest in personnel and other resources related to our engineering, sales, service, marketing and manufacturing functions as we focus on our foundational priorities, such as leadership in our core routing, switching and services, including security and mobility solutions; collaboration; data center virtualization and cloud; video; and architectures for business transformation. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

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

A substantial portion of our business and revenue depends on growth and evolution of the Internet, including the continued development of the Internet, and on the deployment of our products by customers who depend on such continued growth and evolution. To the extent that an economic slowdown or economic uncertainty and related reduction in capital spending adversely affect spending on Internet infrastructure we could experience material harm to 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 performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility. Because we are a large supplier of networking products, our business, operating results, and financial condition 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.

WE HAVE MADE AND EXPECT TO CONTINUE TO MAKE ACQUISITIONS THAT COULD DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS

Our growth depends upon market growth, our ability to enhance our existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following:

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products, such as Scientific-Atlanta, WebEx and Tandberg
- Diversion of management s attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions
- Potential difficulties in completing projects associated with in-process research and development intangibles
- 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 revenue to offset increased expenses associated with acquisitions

- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans

Acquisitions may also cause us to:

- Issue common stock that would dilute our current shareholders percentage ownership
- Use a substantial portion of our cash resources, or incur debt, as we did in fiscal 2006 when we issued and sold $6.5 billion in senior unsecured notes to fund our acquisition of Scientific-Atlanta
- Significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition

Assume liabilities

Record goodwill and nonamortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges

Incur amortization expenses related to certain intangible assets

Incur tax expenses related to the effect of acquisitions on our intercompany research and development (R&D) cost sharing arrangement and legal structure

Incur large and immediate write-offs and restructuring and other related expenses

Become subject to intellectual property or other litigation

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control, 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 could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to a failure 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 pre-acquisition 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 resulted in charges in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings. In addition, our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions. Risks related to new product development also apply to acquisitions. Please see the risk factors above, including the risk factor entitled We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers changing needs, our operating results and market share may suffer for additional information.

ENTRANCE INTO NEW OR DEVELOPING MARKETS EXPOSES US TO ADDITIONAL COMPETITION AND WILL LIKELY INCREASE DEMANDS ON OUR SERVICE AND SUPPORT OPERATIONS

As we focus on new market opportunities for example, storage; wireless; security; transporting data, voice, and video traffic across the same network; and other areas within our newer products categories such as data center and collaboration, emerging technologies, and our priorities we will increasingly compete with large telecommunications equipment suppliers as well as startup companies. Several of our 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, especially in emerging countries. Demand for these types of service, support, 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, support and financing by us may result in a delay in the timing of revenue recognition. In addition, entry into other markets, such as our entry into the consumer market, has subjected and will subject us to additional risks, particularly to those markets, including the effects of general market conditions and reduced consumer confidence.

INDUSTRY CONSOLIDATION MAY LEAD TO INCREASED COMPETITION AND MAY HARM OUR OPERATING RESULTS

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. For example, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them with the ability to provide end-to-end technology solutions for the enterprise data center. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. 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 our 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 composed of more numerous participants.

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PRODUCT QUALITY PROBLEMS COULD LEAD TO REDUCED REVENUE, GROSS MARGINS, AND NET INCOME

We produce highly complex products that incorporate leading-edge technology, including both hardware and software. Software typically contains bugs that can unexpectedly interfere with expected operations. There can be no assurance that our preshipment testing programs will be adequate to detect all defects, either ones in individual products or ones that could affect numerous shipments, which might interfere with customer satisfaction, reduce sales opportunities, or affect gross margins. In the past, we have had to replace certain components and provide remediation in response to the discovery of defects or bugs in products that we had shipped. Although the cost of such remediation has not been material in the past, there can be no assurance that such a remediation, 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, temporary or permanent withdrawal from a product or market, damage to our reputation, inventory costs, or product reengineering expenses, any of which could have a material impact on our revenue, margins, and net income.

DUE TO THE GLOBAL NATURE OF OUR OPERATIONS, POLITICAL OR ECONOMIC CHANGES OR OTHER FACTORS IN A SPECIFIC COUNTRY OR REGION COULD HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION

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, component suppliers and distribution partners. Although sales in several of our emerging countries decreased during the recent global economic downturn, several of our emerging countries generally have been relatively fast growing, and we have announced plans to expand our commitments and expectations in certain of those countries. As such, our growth depends in part on our increasing sales into emerging countries. Our future results could be materially adversely affected by a variety of political, economic or other factors relating to our operations outside the United States, including impacts from the global macroeconomic environment and developments in Europe, any or all of which could have a material adverse effect on our operating results and financial condition, including, among others, the following:

- The worldwide impact of the recent global economic downturn and related market uncertainty, including the recent European economic and financial turmoil related to sovereign debt issues in certain countries
- Foreign currency exchange rates
- Political or social unrest
- Economic instability or weakness or natural disasters in a specific country or region; environmental and trade protection measures and other legal and regulatory requirements, some of which may affect our ability to import our products, to export our products from, or sell our products in various countries
- Political considerations that affect service provider and government spending patterns
- Health or similar issues, such as a pandemic or epidemic
- Difficulties in staffing and managing international operations
- Adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries

WE ARE EXPOSED TO THE CREDIT RISK OF SOME OF OUR CUSTOMERS AND TO CREDIT EXPOSURES IN WEAKENED MARKETS, WHICH COULD RESULT IN MATERIAL LOSSES

Most of our sales are on an open credit basis, with typical payment terms of 30 days 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, and recently we have been experiencing an increase in this demand as the credit markets have been impacted by the recent global economic downturn and related market uncertainty, including increased demand from customers in certain emerging countries. We believe customer financing is a competitive factor in obtaining business, particularly in serving customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services. Our exposure to the credit risks relating to our financing activities described above may increase if our customers are adversely affected by a global economic downturn or periods of economic uncertainty. Although we have programs in place that are designed 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.

In the past, 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 additional losses will not be incurred. 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 distributors and retail partners. These distributors and retail partners are generally given business terms that allow them 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 business terms. However, distributors 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. Additionally, to the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

WE ARE EXPOSED TO FLUCTUATIONS IN CURRENCY EXCHANGE RATES THAT COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS AND CASH FLOWS

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to nondollar-denominated sales in Japan, Canada, and Australia and certain nondollar-denominated operating expenses and service cost of sales 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 that we must purchase components in foreign currencies.

Currently, we enter into foreign exchange forward contracts and options to reduce the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments, and payables. In addition, we periodically hedge anticipated foreign currency cash flows. Our attempts to hedge against these risks may not be successful, resulting in an adverse impact on our net income.

OUR PROPRIETARY RIGHTS MAY PROVE DIFFICULT TO ENFORCE

We generally rely on patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, or circumvented or that our rights will, in fact, provide competitive advantages to us. Furthermore, many key aspects of networking technology are governed by industrywide standards, which are usable by all market entrants. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any 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. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled us to be successful.

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WE MAY BE FOUND TO INFRINGE ON INTELLECTUAL PROPERTY RIGHTS OF OTHERS

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to 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 or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims 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, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, 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.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Further, in the past, third parties have made infringement and similar claims after we have acquired technology that had not been asserted prior to our acquisition.

WE RELY ON THE AVAILABILITY OF THIRD-PARTY LICENSES

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 nonexclusive basis could limit our ability to protect our proprietary rights in our products.

OUR OPERATING RESULTS AND FUTURE PROSPECTS COULD BE MATERIALLY HARMED BY 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 IP, encryption technology, sales taxes on Internet product sales, and access charges for Internet service providers. 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.

CHANGES IN TELECOMMUNICATIONS REGULATION AND TARIFFS COULD HARM OUR PROSPECTS AND FUTURE SALES

Changes in telecommunications requirements, or regulatory requirements in other industries in which we operate, in the United States or other countries could affect the sales of our products. In particular, we believe that there may be future changes in U.S. telecommunications regulations 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 requirements and regulations of the Federal Communications Commission and other regulatory authorities. In countries outside of the United States, our products must meet various requirements of local telecommunications and other industry 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.

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FAILURE TO RETAIN AND RECRUIT KEY PERSONNEL WOULD HARM OUR ABILITY TO MEET KEY OBJECTIVES

Our success has always depended in large part on our ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. Competition for these personnel is intense, especially in the Silicon Valley area of Northern California. Stock incentive plans are designed to reward employees for their long-term contributions and provide incentives for them to remain with us. Volatility or lack of positive performance in our stock price or equity incentive awards, or changes to our overall compensation program, including our stock incentive program, resulting from the management of share dilution and share-based compensation expense or otherwise, may also adversely affect our ability to retain key employees. As a result of one or more of these factors, we may increase our hiring in geographic areas outside the United States, which could subject us to additional geopolitical and exchange rate risk. 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 our 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.

ADVERSE RESOLUTION OF LITIGATION OR GOVERNMENTAL INVESTIGATIONS MAY HARM OUR OPERATING RESULTS OR FINANCIAL CONDITION

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. For example, Brazilian authorities have investigated our Brazilian subsidiary and certain of our current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes and related penalties. The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2007 and the related asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregated to approximately $429 million for the alleged evasion of import taxes, approximately $1.0 billion for interest, and approximately $2.0 billion for various penalties, all determined using an exchange rate as of April 28, 2012. We have completed a thorough review of the matter and believe the asserted tax claims against us are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for our alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against us and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years. An unfavorable resolution of lawsuits or governmental investigations could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the matters in which we are involved, see Item 1, Legal Proceedings, contained in Part II of this report.

CHANGES IN OUR PROVISION FOR INCOME TAXES OR ADVERSE OUTCOMES RESULTING FROM EXAMINATION OF OUR INCOME TAX RETURNS COULD ADVERSELY AFFECT OUR RESULTS

Our provision for income taxes is subject to volatility and could be adversely affected by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments, including the effect of acquisitions on our intercompany R&D cost sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attribute prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates and in some cases is wholly exempt from tax. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous 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. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

OUR BUSINESS AND OPERATIONS ARE ESPECIALLY SUBJECT TO THE RISKS OF EARTHQUAKES, FLOODS, AND OTHER NATURAL CATASTROPHIC EVENTS

Our corporate headquarters, including certain of our research and development operations are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, a certain number of our facilities are located near rivers that have experienced flooding in the past. Also certain of our suppliers and logistics centers are located in regions that have or may be affected by recent earthquake, tsunami and flooding activity which has and could continue to disrupt the flow of components and delivery of products. A significant natural disaster, such as an earthquake, a hurricane, volcano, or a flood, could have a material adverse impact on our business, operating results, and financial condition.

MAN-MADE PROBLEMS SUCH AS COMPUTER VIRUSES OR TERRORISM MAY DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS

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. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may meet with resistance. In addition, 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 the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Likewise, events such as widespread blackouts could have similar negative impacts. 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; IMPAIRMENT OF OUR INVESTMENTS COULD HARM OUR EARNINGS

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 our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income, net of tax. Our portfolio includes fixed income securities and equity investments in publicly traded companies, the values of which are subject to market price volatility to the extent unhedged. If such investments suffer market price declines, as we experienced with some of our investments during fiscal 2009, we may recognize in earnings the decline in the fair value of our investments below their 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, refer to the section titled Quantitative and Qualitative Disclosures About Market Risk. Our investments in private companies are subject to risk of loss of investment capital. These investments are inherently risky because 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 investment in these companies.

IF WE DO NOT SUCCESSFULLY MANAGE OUR STRATEGIC ALLIANCES, WE MAY NOT REALIZE THE EXPECTED BENEFITS FROM SUCH ALLIANCES AND WE MAY EXPERIENCE INCREASED COMPETITION OR DELAYS IN PRODUCT DEVELOPMENT

We have several strategic alliances with large and complex organizations and other companies with which we work to offer complementary products and services and have established a joint venture to market services associated with our Cisco Unified Computing System products. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. There can be no assurance we will realize the expected benefits from these strategic alliances or from the joint venture. If successful, these relationships may be mutually beneficial and result in industry growth. However, 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. Joint ventures can be difficult to manage, given the potentially different interests of joint venture partners.

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OUR STOCK PRICE MAY BE VOLATILE

Historically, 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, security of our products, or significant transactions can cause changes in our 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 and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our current or potential competitors, may materially adversely affect the market price of our common stock in the future. Additionally, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our stock incentive program, may adversely affect our ability to retain key employees, virtually all of whom are compensated, in part, based on the performance of our stock price.

THERE CAN BE NO ASSURANCE THAT OUR OPERATING RESULTS AND FINANCIAL CONDITION WILL NOT BE ADVERSELY AFFECTED BY OUR INCURRENCE OF DEBT

We have senior unsecured notes outstanding in an aggregate principal amount of $16.0 billion that mature at specific dates in 2014, 2016, 2017, 2019, 2020, 2039 and 2040. We have also established a commercial paper program under which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of $3 billion. We had no commercial paper notes outstanding under this program as of April 28, 2012. The outstanding senior unsecured notes bear fixed-rate interest payable semiannually, except $1.25 billion of the notes which bears interest at a floating rate payable quarterly. The fair value of the long-term debt is subject to market interest rate volatility. The instruments governing the senior unsecured notes contain certain covenants applicable to us and our subsidiaries that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. In addition, we will be required to have available in the United States sufficient cash to repay all of our notes on maturity. There can be no assurance that our incurrence of this debt or any future debt will be a better means of providing liquidity to us than would our use of our existing cash resources, including cash currently held offshore. Further, we cannot be assured that our maintenance of this indebtedness or incurrence of future indebtedness will not adversely affect our operating results or financial condition. In addition, changes by any rating agency to our credit rating can negatively impact the value and liquidity of both our debt and equity securities, as well as the terms upon which we may borrow under our commercial paper program.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities (in millions, except per-share amounts)

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share [1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs [2]
January 29, 2012 to February 25, 2012		$		$ 8,217
February 26, 2012 to March 24, 2012	3	$ 19.94	2	$ 8,176
March 25, 2012 to April 28, 2012	25	$ 20.30	25	$ 7,667
Total	28	$ 20.27	27	

(1) Includes approximately 0.7 million shares repurchased to satisfy tax withholding obligations that arose on the vesting of shares of restricted stock and restricted stock units.

(2) On September 13, 2001, we announced that our Board of Directors had authorized a stock repurchase program. As of April 28, 2012, our Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program with no termination date. During the third quarter of fiscal 2012, we repurchased and retired 27 million shares of our common stock under this program at a weighted-average price of $20.28 per share for an aggregate purchase price of $550 million. As of April 28, 2012, we had repurchased and retired 3.6 billion shares of our common stock at a weighted-average price of $20.47 per share for an aggregate purchase price of $74.3 billion since inception of the stock repurchase program, and the remaining authorized amount for stock repurchases under this program was $7.7 billion with no termination date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following documents are filed as Exhibits to this report:

10.1	Credit Agreement dated as of February 17, 2012, by and among Cisco Systems, Inc. the Lenders party thereto, and Bank of America, N.A., as administration agent, swing line lender and an L/C issuer (incorporated by reference to Exhibit 10.1 of Form 8-K (File No. 000-18225) filed on February 17, 2012)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

Cisco Systems, Inc.

Date: May 23, 2012

By /s/ Frank A. Calderoni
Frank A. Calderoni

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and duly authorized signatory)

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31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document