

CISCO SYSTEMS INC  
Form 10-K  
September 18, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark one)

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

For the fiscal year ended July 28, 2007

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**  
(State or other jurisdiction of

incorporation or organization)  
**170 West Tasman Drive**

**San Jose, California**  
(Address of principal executive offices)

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

**77-0059951**  
(IRS Employer

Identification No.)

**95134-1706**  
(Zip Code)

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

Title of Each Class:  
Common Stock, par value \$0.001 per share

Name of Each Exchange on which Registered  
The NASDAQ Stock Market LLC

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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  No

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

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

Large Accelerated filer  Accelerated filer  Non-Accelerated filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on January 26, 2007 as reported by the NASDAQ Global Select Market on that date: \$159,234,951,469

Number of shares of the registrant's common stock outstanding as of September 7, 2007: 6,090,881,108

### DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the registrant's Annual Report to Shareholders for its fiscal year ended July 28, 2007 are incorporated by reference into Part I and Part II of this Annual Report on Form 10-K where indicated.
  - (2) Portions of the registrant's Proxy Statement relating to the registrant's 2007 Annual Meeting of Shareholders, to be held on November 15, 2007, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.
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*This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated by reference from our 2007 Annual Report to Shareholders, 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, may, variations of such words, and 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 Item 1A. Risk Factors, and elsewhere herein and in the 2007 Annual Report to Shareholders. 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.*

## **PART I**

### **ITEM 1. Business**

#### **General**

We design, manufacture, and sell Internet Protocol (IP)-based networking and other products related to the communications and information technology industry and provide services associated with these products and their use. We provide a broad line of products for transporting data, voice, and video within buildings, across campuses, and around the world, which are designed to transform how people, connect, communicate, and collaborate. Our products, which include primarily routers, switches, and products that we refer to as our advanced technologies, are installed at large enterprises, public institutions, telecommunications companies, commercial businesses and personal residences. We conduct our business globally and are managed geographically in five segments: the United States and Canada; European Markets; Emerging Markets; Asia Pacific; and Japan. The Emerging Markets theater consists of Eastern Europe, Latin America, the Middle East and Africa, and Russia and the Commonwealth of Independent States (CIS).

For revenue and other information regarding these segments, see Note 12 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders. Note 12 is incorporated into this report by reference.

We were incorporated in California in December 1984, and our headquarters are in San Jose, California. The mailing address of our headquarters is 170 West Tasman Drive, San Jose, California 95134-1706, and our telephone number at that location is (408) 526-4000. Our Website is [www.cisco.com](http://www.cisco.com). Through a link on the Investor Relations section of our Website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge.

#### **Products and Services**

We sell Internet Protocol (IP)-based networking and other products and services related to the communications and information technology industry. Our products and services are designed to address a wide range of customers' business needs, including improving productivity, reducing costs, and gaining a competitive advantage. Our corresponding technology focus is on delivering networking products and solutions that simplify and secure customers' infrastructures and offer integrated services. Our products and services help customers build their own network infrastructures that support tools and applications that allow them to communicate with key stakeholders, including customers, prospects, business partners, suppliers, and employees. Our product offerings fall into several categories: our core technologies, routing and switching; advanced technologies; and other products. In addition to our product offerings, we provide a broad range of service offerings, including technical support services and advanced services. Our customer base spans virtually all types of public and private agencies and businesses, comprising large enterprise companies, service providers, commercial customers, and consumers.

Our products are used individually or as integrated suites to connect personal and business computing devices to networks or computer networks with each other whether they are within a building, across a campus, or around the world. Our breadth of product and service offerings across multiple technology segments enables us to offer a wide range of products and services to meet customer requirements. We also provide products and services that allow customers to transition their various networks to a single multiservice data, voice, and video network, enabling economies of scale.



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We believe some of our advanced technologies may continue to grow over time to become material contributors to our overall business. Each of our advanced technologies, in addition to our core switching and routing businesses, builds upon our existing competencies and allows us to expand the overall market for our products and services. We have currently identified the following advanced technologies: application networking services, home networking, hosted small-business systems, security, storage area networking, unified communications, video systems and wireless technology. We are in the process of identifying additional advanced technologies for focus and investment in the future, and our investments in some presently identified advanced technologies may be curtailed or eliminated depending on market developments. Beginning in fiscal 2007, our sales of optical networking products are no longer included in our advanced technologies product category and instead are included in the other product category. Prior fiscal years have been reclassified to reflect this change. We have also continued to focus on developing a new wave of technologies, which we refer to as emerging technologies, including such products as digital media, TelePresence, and physical security, among others.

The investments we have made and our architectural approach are based on the belief that collaboration and Web 2.0, the technologies that enable user collaboration, including such technologies as unified communications and TelePresence, and the increased use of the network as the platform for all forms of communications and information technology will create new market opportunities for us. As part of the second major phase of the Internet, we believe the industry is evolving as both personal and business process collaboration and Web 2.0 help to increase innovation and productivity. With the acquisition of Scientific-Atlanta in February 2006, we enhanced our video capabilities to help enable the convergence of data, voice and video technologies. In addition, we seek to form and strengthen strategic business relationships with key service provider customers, and to reach a broad range of consumers with our enhanced product line as a result of this acquisition. We believe that video applications, such as our unified communications and TelePresence products, have the potential to accelerate the growth of bandwidth demands and to increase loads on networks, which may require upgrades to existing networks.

Many of our strategic initiatives and investments are also based on our vision of the evolution of the network. Over time, we believe that the Internet and the various networks associated with it, including corporate intranets; cable, broadband and dialup networks; and voice and video networks, will evolve to include embedded resources and the virtualization of applications and services to produce an integrated, intelligent system. This is our vision for the evolution of networking from connectivity products to intelligent systems. In this evolving environment, we believe successful vendors will be capable of providing a broad spectrum of products aimed not at a particular technology platform but at solutions to networking problems that span all segments. As such, we aim many of our strategic initiatives and investments at meeting the requirements that an intelligent network would demand, making the network the platform for the next generation of value-added communications. For a discussion of the risks associated with that strategy, please see Item 1A. Risk Factors, 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 information regarding sales of our major products and services, see Note 12 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders, which Note is incorporated into this report by reference.

Our offerings fall into several categories:

### ***Routing***

Routing technology is the foundation of a computer network. Routers interconnect computer networks, moving information such as data, voice, and video from one network to another across metropolitan-area networks (MANs) and wide-area networks (WANs). Our routing products offer features designed to increase the intelligence, security, reliability, scalability, and level of performance in the transmission of information and media-rich applications. We offer a broad range of routers, from core network infrastructure for service providers and large businesses to access routers for the service-rich branch office to home network deployments for telecommuters and consumers. Many of our routers host a wide range of services and advanced technologies, delivering integrated voice, video, data, and mobility for homes and businesses.

### ***Switching***

Switching is another integral networking technology that is used in buildings, campuses, and data centers to build local-area networks (LANs), across cities to build MANs, and across great distances to build WANs. Our switching systems offer many forms of connectivity to end users, workstations, and servers, and function as aggregators on LANs, MANs, and WANs. Our systems employ several widely used technologies including Ethernet, Gigabit Ethernet, 10 Gigabit Ethernet, Power over Ethernet, Asynchronous Transfer Mode, packet over Synchronous Optical Network, and Multiprotocol Label Switching. Many of our switches support an integrated set of advanced services, delivering an integrated network solution for the organization.

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### *Advanced Technologies*

#### *Application Networking Services*

Cisco Application Networking Services is a comprehensive portfolio of application networking solutions to enable the successful and highly secure delivery of applications within data centers and across the WAN to remote and branch office users. Using technology to accelerate, maximize availability of, and secure both application traffic and computing resources, these solutions are designed to provide a powerful framework to help ensure the successful deployment and delivery of business applications across the entire organization.

#### *Home Networking*

Home networking products connect different devices in the household, through wired or wireless connections, allowing users to share Internet access, printers, music, movies, and games throughout the home. Our products include voice and data modems, routers, network cards, media adapters, Internet video cameras, network storage, USB adapters, and other products that enable customers to share an Internet connection or move digital content around their homes or small-office environments. These products are available from Linksys and Scientific-Atlanta and sold through select retailers, value-added resellers, online retailers, and e-commerce and service providers worldwide.

#### *Hosted Small-Business Systems*

This solution combines products and services designed to provide small businesses with voice and data networking, along with business applications and Internet access, through a single high-speed connection from a service provider. Hosted small-business systems include integrated voice and data products on the customer's premises coupled with security, quality of service, provisions for voice over Internet Protocol (VoIP), and monitoring and management services, all hosted and delivered by the telecommunications provider.

#### *Security*

Cisco security solutions include a wide range of information security products and services designed to protect critical information systems from unauthorized use, defend against attack, and minimize the effect of Internet-borne worms, spam, viruses, and other malware. Our Self-Defending Network integrates security into the network, adapts to new and evolving threats, and enables collaboration across all security elements. As part of this strategy, we offer numerous network security technologies embedded within our routers and switches, in standalone security appliances and as host-based software agents with central management and analysis. Our information security product and service offerings are designed to help ensure the end-to-end integrity of the information network, simplify operations, and lower total cost of ownership.

#### *Storage Area Networking*

We provide storage area networking products that deliver multilayer, scalable, and highly secure connectivity between servers and storage systems, including products such as storage arrays and tape drives. Our products incorporate intelligent network features, such as advanced network security, traffic management, virtualization, and tools that are designed to help make storing, retrieving, and protecting critical data across widely distributed environments more efficient.

#### *Unified Communications*

Cisco Unified Communications integrate voice, video, data, and mobile applications on fixed and mobile networks, delivering a media-rich collaboration experience to the workspace. Specific products include IP phones, client software, servers, and network appliances supporting call control, contact centers, messaging, conferencing, voice mobility, and collaboration including presence and preference information. These products are available as software, as standalone devices, and as integrated components in Cisco's routers and switches. These applications use the network as the platform to enhance competitive advantage by enabling users to accelerate decision time and reduce transaction time. The security and scalability of the network enable users in any workspace to connect with one another through a computer, handset, PDA or other similar communications equipment. Cisco Unified Communications are part of a comprehensive solution that includes network infrastructure, security, wireless, management applications, lifecycle services, flexible deployment, outsourced management options, and third-party applications. These products include the Web-based collaborative product offerings from the acquisition of WebEx Communications, Inc. ( WebEx ).





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### *Video Systems*

Our video systems consist primarily of digital set-top boxes and digital media technology products. Digital set-top boxes provide video entertainment services to consumers. They enable subscribers to access a variety of interactive digital television services developed either by Cisco or third parties. Our equipment includes Standard-Definition (SD) basic digital set-tops, DOCSIS (Data Over Cable System Interface Specification) Set-top Gateway (DSG) digital set-tops, High-Definition (HD) digital set-tops, Digital Video Recorder (DVR) set-tops, HD-DVR set-tops, Multi-Room DVR set-tops, Media Center DVR set-tops, and Digital-only set-tops. Digital media technology products span a wide range of signal processing and headend capabilities including reception, encoding or transcoding, transrating, multiplexing, ad insertion, switching, and modulation. Deployment of these capabilities can help service providers and broadcast customers to more efficiently deliver entertainment, information, and communications services over their existing access networks. These products are sold primarily through Scientific-Atlanta.

### *Wireless Technology*

We offer a broad variety of in-building and outdoor wireless networking products. These products include access points, wireless LAN controllers, wireless integrated switches and routers, wireless management software, wireless LAN clients and client software, bridges, antennas, and accessories. Our wireless networking products are designed to provide high performance and highly secure, manageable, and reliable wireless LANs that enable mobility and increase productivity.

### *Other Products*

Our other products are comprised primarily of cable access, service provider VoIP services, and optical networking products. We provide optical networking products for both the enterprise and service provider markets. Scientific-Atlanta markets and sells analog and digital optoelectronics which may reside in a network operator's headend, in other facilities such as distribution hubs, and in optical nodes. Other products also include such emerging technologies as digital media products, physical security products, and TelePresence.

### *Service*

In addition to our product offerings, we provide a broad range of service offerings, including technical support services and advanced services. Technical support services help ensure that our products operate efficiently, remain available, and benefit from the most up-to-date system software. These services help customers protect their network investments and minimize downtime for systems running mission-critical applications. Advanced services are services that are part of a comprehensive program that is designed to provide responsive, preventive, and consultative support of our technologies for specific networking needs. The advanced services program supports networking devices, applications, and complete infrastructures.

### **Customers and Markets**

Our customers' IT collaboration networking needs are influenced by numerous factors, including the size of the organization, number and types of technology systems, geographic location, and the business applications deployed throughout the network. Our customer base is not concentrated in any particular industry, geography, or market segment. In each of the past three fiscal years, no single customer has accounted for 10 percent or more of our net sales. Our customers are primarily in the following markets:

#### *Large Enterprise Businesses*

Generally, we define large enterprise businesses as regional, national, or global organizations with 1,000 or more employees working in multiple locations or branch offices. Many of these customers have unique IT collaboration networking needs within a multivendor environment. Our large enterprise customers include private and public sector firms and governments. We take advantage of the network as the platform to integrate business processes with technology architectures to assist customer growth. We offer service and support packages, financing, and managed network services through our service provider partners. We sell these products through a network of third-party application and technology vendors and channel partners.

#### *Service Providers*

Service providers offer data, voice, and video communication services to businesses, governments, utilities, and consumers. They include regional, national, and international telecommunications carriers as well as Internet, cable, and wireless service providers. Service providers use a variety of our routing, switching, optical, storage, security, video systems, and network management products in their own networks.

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Compared to other customers, service providers are more likely to require network design, deployment, and support services because of the scale and complexity of their networks. Additionally, many service providers offer managed network services incorporating our enterprise and commercial products for unified communications and call centers, virtual private networks (VPNs), security, and managed firewalls for their business customers.

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### ***Commercial***

We define commercial customers as those having 20 to 1,000 employees, and we further divide commercial customers into two distinct subsegments: small and medium-sized businesses (SMBs) with 20 to 250 employees and midmarket businesses with 250 to 1,000 employees. SMB customers are served primarily by our knowledgeable channel partners and we have designed specific products, services, and channel programs to meet the needs of this customer segment. Our SMB customers require their communications networks to help them solve their business challenges and they often desire those networks to be completely hosted and managed by their channel partner or service provider. Midmarket customers are served by a combination of our sales department and channel partners and typically require the latest advanced technology that is available to our large enterprise partners, but without the complexity.

### ***Consumer***

Consumer customers, primarily individuals and businesses operating in small offices or home offices, have infrastructure and networking needs on a smaller scale.

### **Sales Overview**

As of the end of fiscal 2007, our worldwide sales and marketing department consisted of 21,465 individuals, including managers, sales representatives, and technical support personnel. We have field sales offices in more than 80 countries and sell our products and services both directly and through a variety of channels with support from our sales force. 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. Some service providers are also systems integrators.

Distributors hold inventory and typically sell to systems integrators, service providers, and other resellers. In addition, Linksys home networking 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 is recognized based on a sell-through method using information provided by them. These distributors and retail partners are generally given business terms which allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs.

For information regarding risks related to our channels, please see Item 1A. Risk Factors, including the risk factors entitled Disruption of or changes in our distribution model could harm our sales and margins and Our inventory management relating to our sales to our two-tier distribution channel is complex, and excess inventory may harm our gross margins.

For information regarding risks relating to our international operations, please see Item 1A. Risk Factors, including the risk factors entitled Our operating results may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment, 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 are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows and Man-made problems such as computer viruses or terrorism may disrupt our operations and harm our operating results.

Our service offerings complement our products via a range of consulting, technical, project, quality, and maintenance services, including 24-hour online and telephone support through technical assistance centers. We facilitate and provide lease and other financing through our wholly owned subsidiaries to certain qualified customers for the purchase of equipment and other needs. For additional information regarding these financing activities, see Note 5 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders, which is incorporated into this report by reference.

### **Backlog**

Our backlog at July 28, 2007, the last day of our 2007 fiscal year, was approximately \$3.9 billion, compared with backlog of approximately \$3.0 billion at July 29, 2006, the last day of our 2006 fiscal year. Backlog includes orders confirmed for products scheduled to be shipped within 90 days to customers with approved credit status. Because of the generally short cycle between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.



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### **Acquisitions, Investments, and Alliances**

The markets in which we compete require a wide variety of technologies, products, and capabilities. The combination of technological complexity and rapid change within our markets makes it difficult for a single company to develop all the technological solutions that it desires to offer within its family of products and services. Through acquisitions, investments, and alliances we are able to deliver a broader range of products and services to customers in target markets.

We employ the following strategies to address the need for new or enhanced networking products and services: we develop new technologies and products internally; we enter into joint-development efforts with other companies; we resell other companies' products; and we acquire all or parts of other companies.

#### ***Acquisitions***

We have acquired many companies, and we expect to make future acquisitions. Mergers and acquisitions of high-technology companies are inherently risky, especially if the acquired company has yet to ship a product. No assurance can be given that our previous or future acquisitions will be successful or will not materially adversely affect our financial condition or operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. The risks associated with acquisitions are more fully discussed in Item 1A. Risk Factors, including the risk factor entitled "We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results."

#### ***Investments in Privately Held Companies***

We make investments in privately held companies that develop technology or provide services that are complementary to our products or provide strategic value. The risks associated with these investments are more fully discussed in Item 1A. Risk Factors, including the risk factor entitled "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."

#### ***Strategic Alliances***

We pursue strategic alliances with other companies in areas where collaboration can produce industry advancement and acceleration of new markets. The objectives and goals for a strategic alliance can include one or more of the following: technology exchange, product development, joint sales and marketing, or new-market creation. Currently, we have strategic alliances with Accenture Ltd; AT&T Inc.; BearingPoint, Inc.; Cap Gemini S.A.; Electronic Data Systems Corporation; EMC Corporation; Fujitsu Limited; Hewlett-Packard Company; Intel Corporation; International Business Machines Corporation; Italtel SpA; Microsoft Corporation; Nokia; Nokia Siemens Networks; Siemens AG; Sitronics Telecom Solutions, Czech Republic a.s.; Sprint Nextel Corporation; and Wipro Limited; among others. Companies with whom we have strategic alliances in some areas may be competitors in other areas. The risks associated with our strategic alliances are more fully discussed in Item 1A. Risk Factors, including the risk factor entitled "If we do not successfully manage our strategic alliances, we may experience increased competition or delays in product development."

### **Competition**

We compete in the networking and communications equipment markets, providing products and services for transporting data, voice, and video traffic across intranets, extranets, and the Internet. These markets are characterized by rapid change, converging technologies, and a migration to networking solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to 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 our advanced technology markets. 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 China, and we anticipate this will continue. Companies with whom we compete in some areas we may also have strategic alliances with in other areas.

Our competitors include: Alcatel-Lucent; ARRIS Group, Inc.; Aruba Networks, Inc.; Avaya Inc.; Brocade Communications Systems, Inc.; Check Point Software Technologies Ltd.; D-Link Corporation; LM Ericsson Telephone Company; Extreme Networks, Inc.; F5 Networks, Inc.; Force10 Networks, Inc.; Fortinet Inc.; Foundry Networks Inc.; Hewlett-Packard Company; Huawei Technologies Co., Ltd; International Business Machines Corporation; Juniper Networks, Inc.; Meru Networks, Inc.; Microsoft Corporation; Motorola, Inc.; NETGEAR, Inc.; Nortel Networks Corporation; Riverbed Technology, Inc.; Symantec Corporation; and Trapeze Networks, Inc., among others.

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Some of these companies compete across multiple 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,

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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.

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

The ability to provide a broad range of networking products and services

Product performance

Price

The ability to 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

We also face competition from customers to whom we license or supply technology and suppliers from whom 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.

## **Research and Development**

We regularly seek to introduce new products and features in areas including routers, switches, advanced technologies, and other product technologies. Our research and development expenditures were \$4.5 billion, \$4.1 billion, and \$3.3 billion in fiscal 2007, 2006, and 2005, respectively. All of our expenditures for research and development costs, as well as in-process research and development of \$81 million, \$91 million, and \$26 million in fiscal 2007, 2006, and 2005, respectively, have been expensed as incurred.

The industry in which we compete is subject to rapid technological developments, evolving standards, changes in customer requirements, and new product introductions and enhancements. As a result, our success depends in part upon our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products that improve performance and reduce total cost of ownership. To achieve these objectives, our management and engineering personnel work with customers to identify and respond to customer needs, as well as with other innovators of internetworking products, including universities, laboratories, and corporations. We also expect to continue to make acquisitions and investments where appropriate to provide us with access to new technologies. We intend to continue developing products that meet key industry standards and to support important protocol standards as they emerge. Still, there can be no assurance that we will be able to successfully develop products to address new customer requirements and technological changes or that such

products will achieve market acceptance.

**Manufacturing**

We primarily employ an outsourced manufacturing strategy that relies on contract manufacturers for manufacturing services, although we continue to operate the Scientific-Atlanta manufacturing facilities acquired in the Scientific-Atlanta acquisition, including its principal facility in Juarez, Mexico. Scientific-Atlanta's manufacturing operations range from automated assembly lines for volume production to complete assembly of a particular product by one individual or small group of individuals. We presently use a variety of independent third-party companies to provide services related to printed circuit board assembly, in-circuit test, and product repair as well as product assembly. Proprietary software on electronically programmable memory chips is used to configure products to customer needs and to maintain quality control and security. The manufacturing process enables us to configure the hardware and software in unique combinations to meet a wide variety of individual customer requirements. The manufacturing process uses automated testing equipment and burn-in procedures, as well as comprehensive inspection, testing, and



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statistical process controls that are designed to help ensure the quality and reliability of our products. The manufacturing processes and procedures are generally certified to ISO 9001 or ISO 9003 standards.

Our arrangements with contract manufacturers generally provide for quality, cost, and delivery requirements, as well as manufacturing process terms, such as continuity of supply; inventory management; flexibility regarding capacity, quality and cost management; oversight of manufacturing; and conditions for use of our intellectual property. In the fourth quarter of fiscal 2007, we fully implemented the lean manufacturing model, which we began transitioning to in the third quarter of fiscal 2006.

We have not entered into any significant long-term contracts with any manufacturing service provider. We generally have the option to renew arrangements on an as-needed basis, primarily annually. These arrangements generally do not commit us to purchase any particular amount or any quantities beyond certain amounts covered by orders or forecasts that we submit covering discrete periods of time.

## **Patents, Intellectual Property, and Licensing**

We seek to establish and maintain our proprietary rights in our technology and products through the use of patents, copyrights, trademarks, and trade secret laws. We have a program to file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality agreements. We have obtained a substantial number of patents and trademarks in the United States and in other countries. There can be no assurance, however, that the rights obtained can be successfully enforced against infringing products in every jurisdiction. Although we believe the protection afforded by our patents, copyrights, trademarks, and trade secrets has value, the rapidly changing technology in the networking industry and uncertainties in the legal process make our future success dependent primarily on the innovative skills, technological expertise, and management abilities of our employees rather than on the protection afforded by patent, copyright, trademark, and trade secret laws.

Many of our products are designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based upon past experience and standard industry practice, that such licenses generally could be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all. Our 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, inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis can limit our ability to protect our proprietary rights in our products.

The industry in which we compete is characterized by rapidly changing technology, a large number of patents, and frequent claims and related litigation regarding patent and other intellectual property rights. There can be no assurance that our patents and other proprietary rights will not be challenged, invalidated, or circumvented; that others will not assert intellectual property rights to technologies that are relevant to us; or that our rights will give us a competitive advantage. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as the laws of the United States. The risks associated with patents and intellectual property are more fully discussed in Item 1A. Risk Factors, including the risk factors entitled Our proprietary rights may prove difficult to enforce, We may be found to infringe on intellectual property rights of others, and We rely on the availability of third-party licenses.

## **Employees**

As of July 28, 2007, we employed 61,535 employees, including 16,227 in manufacturing and service, 18,410 in engineering, 21,465 in sales and marketing, and 5,433 in general and administration. Approximately 26,500 employees are in locations outside the United States. We consider the relationships with our employees to be positive. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

**Table of Contents****Executive Officers of the Registrant**

The following table shows the name, age and position as of August 31, 2007 of each of our executive officers:

| <b>Name</b>      | <b>Age</b> | <b>Position</b>   |
|------------------|------------|---|
| Susan L. Bostrom | 46         | Executive Vice President, Chief Marketing Officer, Global Policy and Government Affairs |

Ms. Bostrom joined Cisco in October 1997 as Vice President of Cisco's Applications and Services Marketing group. In August 1998, she was appointed Vice President of the Internet Business Solutions Group, and she was promoted to Senior Vice President in February 2000. In October 2002, she also assumed responsibility for Worldwide Government Affairs. Since January 2006, she has served as Chief Marketing Officer, and in August 2007 she was named Executive Vice President. Before joining Cisco, Ms. Bostrom had served as Senior Vice President of Global Marketing and Strategic Planning at FTP Software. Ms. Bostrom also currently serves on the board of directors of Varian Medical Systems, Inc.

|                 |    |  |
|-----------------|----|--|
| Larry R. Carter | 64 | Senior Vice President, Office of the President, and Director |
|-----------------|----|--|

Mr. Carter has been a member of the Board of Directors since July 2000. He joined Cisco in January 1995 as Vice President of Finance and Administration, Chief Financial Officer, and Secretary. In July 1997, he was promoted to Senior Vice President of Finance and Administration, Chief Financial Officer, and Secretary. In May 2003, upon his retirement as Chief Financial Officer and Secretary, he was appointed to his current position. Before joining Cisco, he was employed by Advanced Micro Devices, Inc. as Vice President and Corporate Controller. Mr. Carter also currently serves on the board of directors of QLogic Corporation.

|                   |    |  |
|-------------------|----|--|
| Jonathan Chadwick | 41 | Senior Vice President, Corporate Controller and Principal Accounting Officer |
|-------------------|----|--|

Mr. Chadwick joined Cisco in September 1997 as Director, Finance & Accounting. In May 1999, he was promoted to Senior Director, Corporate Finance & Accounting, and in February 2001, he was promoted to Vice President, Corporate Finance & Planning. In September 2006, he was appointed as Vice President, Corporate Controller and Principal Accounting Officer, and he was promoted to his current position in June 2007. Before joining Cisco, Mr. Chadwick was employed by Coopers & Lybrand LLP.

|                  |    |   |
|------------------|----|---|
| John T. Chambers | 58 | Chairman, Chief Executive Officer, and Director |
|------------------|----|---|

Mr. Chambers has served as Chief Executive Officer since January 1995, as Chairman of the Board of Directors since November 2006 and as a member of the Board of Directors since November 1993. Mr. Chambers also served as President from January 31, 1995 to November 2006. He joined Cisco as Senior Vice President in January 1991 and was promoted to Executive Vice President in June 1994. Mr. Chambers was promoted to President and Chief Executive Officer as of January 31, 1995. Before joining Cisco, he was employed by Wang Laboratories, Inc. for eight years, where, in his last role, he was the Senior Vice President of U.S. Operations.

|               |    |  |
|---------------|----|--|
| Mark Chandler | 51 | Senior Vice President, Legal Services, General Counsel and Secretary |
|---------------|----|--|

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Mr. Chandler joined Cisco in July 1996, upon Cisco's acquisition of StrataCom, Inc., where he served as General Counsel. He served as Cisco's Managing Attorney for Europe, the Middle East, and Africa from December 1996 until June 1999; as Director, Worldwide Legal Operations from June 1999 until February 2001; and was promoted to Vice President, Worldwide Legal Services in February 2001. In October 2001, he was promoted to Vice President, Legal Services and General Counsel and in May 2003, he was also appointed Secretary. In February 2006, he was promoted to Senior Vice President. Before joining StrataCom, he had served as Vice President, Corporate Development and General Counsel of Maxtor Corporation.

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| <b>Name</b> | <b>Age</b> | <b>Position</b>   |
|-------------|------------|---|
| Wim Elfrink | 55         | Executive Vice President, Customer Advocacy and Chief Globalization Officer |

Mr. Elfrink joined Cisco in 1997 as Vice President of Customer Advocacy. In November 2000 he was promoted to Senior Vice President, Customer Advocacy, and he was appointed Chief Globalization Officer in December 2006. In August 2007 he was named Executive Vice President.

|                      |    |   |
|----------------------|----|---|
| Charles H. Giancarlo | 49 | Executive Vice President, Chief Development Officer |
|----------------------|----|---|

Mr. Giancarlo joined Cisco in December 1994 as Director of Business Development. He was promoted to Vice President in September 1995. He was Vice President of Global Alliances from April 1997 to April 1999 and promoted to Senior Vice President in April 1998. In April 1999, he was promoted to Senior Vice President, Commercial Line of Business. In August 2001, he was promoted to Senior Vice President and General Manager of the Access, Aggregation, Ethernet Switching, and Wireless Groups. In May 2002, he was promoted to Senior Vice President of the Switching, Voice and Storage Groups. In June 2003, he also became the President of Cisco-Linksys LLC. In August 2004, he was promoted to Chief Technology Officer. At the end of July 2005, he was promoted to Senior Vice President, Chief Development Officer and was named Executive Vice President in August 2007. Before joining Cisco, he served as Vice President of Marketing with Kalpana Corporation from July 1993 until Kalpana was acquired by Cisco in December 1994. Mr. Giancarlo currently serves on the board of directors of Netflix, Inc.

|                    |    |   |
|--------------------|----|---|
| Richard J. Justice | 57 | Executive Vice President, Worldwide Operations and Business Development |
|--------------------|----|---|

Mr. Justice joined Cisco in December 1996 as Senior Vice President of the Americas. In February 2000, he was promoted to Senior Vice President, Worldwide Field Operations. He became Senior Vice President, Worldwide Operations and Business Development in December 2006 and was named Executive Vice President in August 2007. Before joining Cisco, Mr. Justice spent 22 years at Hewlett-Packard Company where, in his last role, he was responsible for Worldwide Enterprise Sales and Marketing.

|            |    |   |
|------------|----|---|
| Randy Pond | 53 | Executive Vice President, Operations, Processes and Systems |
|------------|----|---|

Mr. Pond joined Cisco in September 1993. In 1994, Mr. Pond assumed leadership of Cisco's Supply/Demand group. In 1994, he was appointed Director of Manufacturing Operations. He was promoted to Vice President of Manufacturing in 1995. In January 2000, Mr. Pond was promoted to Senior Vice President of West Coast and Asia operations. He was promoted to Senior Vice President, Worldwide Manufacturing Operations and Logistics in June 2001. In August 2003, he was promoted to Senior Vice President, Operations, Processes and Systems, and he was named Executive Vice President in August 2007. Before joining Cisco, Mr. Pond held the position of Vice President Finance, Chief Financial Officer, and Vice President of Operations at Crescendo Communications.

|                  |    |  |
|------------------|----|--|
| Dennis D. Powell | 59 | Executive Vice President and Chief Financial Officer |
|------------------|----|--|

Mr. Powell joined Cisco in January 1997 as Vice President, Corporate Controller. In June 2002, he was promoted to Senior Vice President, Corporate Finance. Mr. Powell was promoted to Senior Vice President and Chief Financial Officer in May 2003, and he was named Executive Vice President in August 2007. Before joining

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Cisco, Mr. Powell was employed by Coopers & Lybrand LLP for 26 years, most recently as a senior partner. Mr. Powell currently serves on the board of directors of Intuit Inc. In addition, he was appointed to the board of directors of Applied Materials, Inc. on September 12, 2007. Cisco announced in August 2007 that Mr. Powell will retire effective around mid-February 2008, and that Frank A. Calderoni, currently Senior Vice President, Customer Solutions Finance of Cisco, is expected to succeed Mr. Powell as Cisco's Chief Financial Officer.

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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.

#### **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. These factors include:

Fluctuations in demand for our products and services, especially with respect to Internet businesses and telecommunications service providers, 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 markets, including emerging and advanced technologies, as well as the adoption of new networking 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 this as described below

Our ability to achieve targeted cost reductions

The ability of our customers, channel partners, and suppliers to obtain financing or to fund capital expenditures

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

Actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our Consolidated Financial Statements

How well we execute on our strategy and operating plans

Benefits anticipated from our investments in engineering, sales and manufacturing activities

Changes in accounting rules, such as recording expenses for employee stock option grants and tax accounting, including accounting for uncertain tax positions

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.

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

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

Reduced demand for our products as a result of continued constraints on information technology-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

Excess facilities and manufacturing capacity

Higher overhead costs as a percentage of revenue and higher interest expense

Recent turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the continuing tension in and surrounding Iraq, and changes in energy costs may continue to put pressure on global economic conditions. Our operating results in one or more segments may also be affected by changing economic conditions particularly germane to that segment or to particular customer markets within that segment. If global economic and market conditions, or economic conditions in the United States or other key markets, deteriorate, we may experience material impacts on our business, operating results, and financial condition.

**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. Our net sales may grow at a slower rate than in past periods, or may decline. 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 leading to additional costs arising out of inventory management. 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.

In addition, to improve customer satisfaction, we continue to attempt to improve 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. Long manufacturing lead times have caused our customers in the past 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) may cause difficulty in predicting our sales and, as a result, could impair our ability to manage parts inventory effectively.

We plan our operating expense levels 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.





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**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 may not be sustainable and may continue to 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, including markets with different pricing and cost structures, through acquisitions, such as our acquisition of Scientific-Atlanta, or internal development

Sales discounts

Increases in material or labor costs

Excess inventory and inventory holding charges

Obsolescence charges

Changes in shipment volume

Loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand

Lower than expected benefits from value engineering

Increased price competition, including competitors from Asia, especially 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.

**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, home networking 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 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.

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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 through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products

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 in business conditions

### **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 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. 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.

### **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 larger and more uneven purchases, especially relating to our router sales and sales of certain of our advanced technologies, in addition to longer sales cycles. 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. Although some service providers may have increased capital expenditures over the depressed levels that have prevailed over the last few years, weakness in orders from this industry could have a material adverse effect on our business, operating results, and financial condition. Slowdowns in the general economy, overcapacity, changes in the service provider market, regulatory developments, and constraints on capital availability have had a material adverse effect on many of our service provider customers, with many of these customers going out of business or substantially reducing their expansion plans. These conditions have materially harmed our business and operating results, and we expect that some or all of these conditions may continue for the foreseeable future. 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.

### **A SHORTAGE OF ADEQUATE COMPONENT SUPPLY OR MANUFACTURING CAPACITY COULD INCREASE OUR COSTS OR CAUSE A DELAY IN OUR ABILITY TO FULFILL ORDERS, AND OUR FAILURE TO ESTIMATE CUSTOMER DEMAND PROPERLY MAY RESULT IN EXCESS OR OBSOLETE COMPONENT SUPPLY, WHICH COULD ADVERSELY AFFECT OUR GROSS MARGINS**

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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, especially if the economy grows. 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.

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If shortages or delays persist, 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. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

We believe that we may be faced with the following challenges 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, which are supply-constrained, from existing competitors and companies in other markets. Manufacturing capacity and component supply constraints, including those caused by any possible disruption related to our recently completed implementation of the lean manufacturing model, could 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. 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 8 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders which Note is incorporated into this report by reference.

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.

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

Our key manufacturing facilities for Scientific-Atlanta's products are located in Juarez, Mexico, and we may be materially and adversely affected by any prolonged disruption in the operation of this facility.

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

The markets in which we compete are characterized by rapid change, converging technologies, and a migration to networking 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 our advanced technology markets. 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 China, and we anticipate this will continue. For information regarding our competition and the risks arising out of the competitive environment

in which we operate, see the section entitled "Competition" contained in Item 1 of this report.

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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 Web 2.0, the technologies that enable user collaboration, as part of the second major phase of the Internet. 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 Web 2.0 and the increased use of the network as the platform for all forms of communications and information technology. The process of developing new technology is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We must commit significant resources to 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, 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. Specifically, the products and technologies that we identify as emerging technologies, such as our TelePresence products, or advanced technologies may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or advanced technologies.

**WE ARE INCREASING OUR INVESTMENT IN ENGINEERING, SALES, AND MANUFACTURING ACTIVITIES AND THESE INVESTMENTS MAY ACHIEVE DELAYED, OR LOWER THAN EXPECTED, BENEFITS WHICH COULD HARM OUR OPERATING RESULTS**

We intend to continue to add personnel and other resources to our engineering, sales and manufacturing functions as we focus on developing emerging technologies, the next wave of advanced technologies, growing the commercial market segment, capitalizing on our emerging market opportunities, enhancing our evolving support model and increasing our market share gains. 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 and on the deployment of our products by customers who depend on the continued growth and evolution of the Internet. To the extent that an economic slowdown and 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 certain 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.

**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

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intangible assets, could change as a result of such assessments and decisions. 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.

**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 and WebEx

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

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, as we did in connection with our acquisitions of WebEx and IronPort, or incur debt as we did in February 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

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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 post-acquisition integration of purchased intangible assets into our intercompany R&D cost sharing arrangement

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

Become subject to intellectual property or other litigation

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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 preacquisition due diligence will have identified all possible issues that might arise with respect to such products.

From time to time, we have made acquisitions that resulted in in-process research and development expenses being charged in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings. 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; and transporting data, voice, and video traffic across the same network, and other advanced technologies and emerging technologies—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. Demand for these types of service or financing contracts may increase in the future. There can be no assurance that we can provide products, service, support, and financing to effectively compete for these market opportunities. Further, provision of greater levels of services by us may result in a delay in the timing of revenue recognition. In addition, entry into other markets, including our entry into the consumer market, has subjected us to additional risks, particularly to those markets, including the effects of general market conditions and reduced consumer confidence.

### **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.

### **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. 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.

### **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, maintain a manufacturing facility for a substantial portion of our video systems products in Juarez, Mexico, and also depend on non-U.S. operations of our contract manufacturers and our distribution partners. Recently our Emerging Markets theater has been the fastest growing of our business segments, and our growth depends in part on our continuing to increase sales into this theater. Our future results could be



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materially adversely affected by a variety of uncontrollable and changing factors relating to our operations outside the United States, any or all of which could have a material adverse effect on our operating results and financial condition, including, among others, foreign currency exchange rates; political or social unrest, economic instability or natural disasters in a specific country or region; environmental and trade protection measures and other regulatory requirements, 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; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries.

**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 non-dollar-denominated operating expenses in Europe, Latin America, and Asia, where we sell primarily in U.S. dollars. Additionally, we have exposures to emerging market currencies, which can have extreme currency volatility. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent that we must purchase components in foreign currencies.

Currently, we enter into foreign exchange forward contracts 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.

**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. We believe customer financing is a competitive factor in obtaining business, particularly in supplying customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services and for working capital purposes. We do not recognize revenue on customer loan financing arrangements until cash payments are received.

Our exposure to the credit risks relating to our financing activities described above may increase if there is an economic slowdown. 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. 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.

**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

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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.

### **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

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sales of our products for certain classes of customers. Additionally, in the United States, our products must comply with various Federal Communications Commission requirements and regulations. In countries outside of the United States, our products must meet various requirements of local telecommunications authorities. Changes in tariffs or failure by us to obtain timely approval of products could have a material adverse effect on our business, operating results, and financial condition.

### **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 option grants are designed to reward employees for their long-term contributions and provide incentives for them to remain with us. Volatility, lack of positive performance in our stock price, or changes to our overall compensation program, including our stock incentive program, resulting from the adoption of SFAS 123(R) 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 the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

### **ADVERSE RESOLUTION OF LITIGATION 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. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 3, Legal Proceedings, contained in Part I of this report.

### **CHANGES IN 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 which have lower tax rates and higher than anticipated in countries which 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 post-acquisition integration of purchased intangible assets from certain acquisitions into our intercompany R&D cost sharing arrangement; by tax effects of share-based compensation; by costs related to intercompany restructurings; or by changes in tax laws, regulations, accounting principles, including accounting for uncertain tax positions, or interpretations thereof. 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 and our manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, a certain number of our facilities, including one of our manufacturing facilities, are located near rivers that have experienced flooding in the past. A significant natural disaster, such as an earthquake, a hurricane, 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



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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 separate component of accumulated other comprehensive income, net of tax. Part of this portfolio includes equity investments in publicly traded companies, the values of which are subject to market price volatility to the extent unhedged. If the public equities market declines, we may recognize in earnings the decline in fair value of our publicly traded equity investments below the cost basis when the decline is judged to be other-than-temporary. For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to the section titled "Quantitative and Qualitative Disclosures About Market Risk" included in our 2007 Annual Report to Shareholders, which section is incorporated by reference into this report. 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 EXPERIENCE INCREASED COMPETITION OR DELAYS IN PRODUCT DEVELOPMENT**

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

**WE ARE REQUIRED TO RECOGNIZE EXPENSE FOR SHARE-BASED COMPENSATION RELATED TO EMPLOYEE SHARE-BASED AWARDS, AND THERE IS NO ASSURANCE THAT THE EXPENSE THAT WE ARE REQUIRED TO RECOGNIZE MEASURES ACCURATELY THE VALUE OF OUR SHARE-BASED PAYMENT AWARDS, AND THE RECOGNITION OF THIS EXPENSE COULD CAUSE THE TRADING PRICE OF OUR COMMON STOCK TO DECLINE**

On July 31, 2005, we adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based compensation based on estimated fair values. As a result, starting with fiscal 2006, our operating results contain a charge for employee share-based compensation expense. This charge is in addition to share-based compensation expense we recognized prior to fiscal 2006 related to acquisitions and investments. The application of SFAS 123(R) requires the use of an option-pricing model to determine the fair value of share-based payment awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our 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 our 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 of our employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

As a result of the adoption of SFAS 123(R), beginning with fiscal 2006, our earnings were lower than they would have been had we not been required to adopt SFAS 123(R). This will continue to be the case for future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

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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.

**WE HAVE ISSUED \$6.5 BILLION OF SENIOR UNSECURED NOTES, AND THERE CAN BE NO ASSURANCE THAT OUR OPERATING RESULTS AND FINANCIAL CONDITION WILL NOT BE ADVERSELY AFFECTED**

On February 22, 2006, we issued senior unsecured notes in an aggregate principal amount of \$6.5 billion that mature at specific dates in 2009, 2011 and 2016. The notes that mature in 2009 bear floating-rate interest payable quarterly while the notes that mature in 2011 and 2016 bear fixed-rate interest payable semi-annually. We have entered into certain interest rate swaps to, in effect, convert the interest rates of the fixed interest notes into floating-rates based on LIBOR. Higher short-term interest rates would accordingly result in increased interest expense. While we presently mitigate this risk by investing a portion of our interest-bearing assets in instruments with similar interest rate characteristics as the swapped debt, there can be no assurance that we will maintain a matched portfolio in the future. The instruments governing the 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. We have not previously undertaken substantial amounts of debt for borrowed money. There can be no assurance that our incurrence of this 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 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.

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### **ITEM 1B. Unresolved Staff Comments**

Not applicable.

### **ITEM 2. Properties**

Our headquarters are located on an owned site in San Jose, California. In addition to this site, we own certain sites in the United States, which include facilities in the surrounding areas of San Jose, California; Boxborough, Massachusetts; Richardson, Texas; Lawrenceville, Georgia; and Research Triangle Park, North Carolina. We also own land for expansion in some of these locations. In addition, we also lease office space in several U.S. locations.

Outside the United States our operations are conducted primarily in leased sites, and to a lesser extent in owned sites. Significant sites include Australia, Canada, China, France, Germany, India, Israel, Japan, Netherlands, Singapore, and the United Kingdom, among others.

We own and lease the Scientific-Atlanta manufacturing facilities, with a principal manufacturing facility located in Juarez, Mexico. We believe that our existing properties, including both owned and leased, are in good condition and suitable for the conduct of our business.

For additional information regarding obligations under operating leases, see Note 8 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders. Note 8 is incorporated by reference herein. For additional information regarding properties by operating segment, see Note 12 to the Consolidated Financial Statements in our 2007 Annual Report to Shareholders, Note 12 is incorporated by reference herein.

### **ITEM 3. Legal Proceedings**

We and other defendants were subject to patent claims asserted by QPSX Developments 5 Pty Ltd (now known as Ipernica Ltd) against us and such other defendants on June 21, 2005 in the United States District Court for the Eastern District of Texas. QPSX alleged that various Cisco switches and routers infringed United States Patent No. 5,689,499 and sought damages and injunctive relief. On April 10, 2007, prior to trial, we and QPSX settled our dispute on terms that are not material to us, and the lawsuit was dismissed with prejudice on May 2, 2007.

We and other defendants were subject to claims asserted by Telcordia Technologies, Inc. on July 16, 2004 in the Federal District Court for the District of Delaware alleging that various Cisco routers, switches and optical products infringed United States Patent Nos. 4,893,306, 4,835,763 and Re 36,633. Telcordia sought damages and injunctive relief. The Court ruled that, as a matter of law, we do not infringe Patent No. 4,893,306. After conclusion of a trial, on May 10, 2007, a jury found that infringement had occurred and awarded damages in an amount that is not material to us. We have asked the Court to reverse the verdict as a matter of law, and if necessary, we intend to appeal the decision. Telcordia has asked the Court to enhance damages and award it attorneys' fees and also has the right to appeal. We believe that the ultimate outcome of this matter and aggregate potential damages will not be material.

In September 2005, Scientific-Atlanta, Inc. (which subsequently was acquired by us) and another plaintiff filed a declaratory judgment action against Forgent Networks in the United States District Court for the Eastern District of Texas after Forgent sued various Scientific-Atlanta customers. In the action, Scientific-Atlanta asserted that its products did not infringe Forgent's United States Patent No. 6,285,746 and that the patent was invalid. On October 20, 2005, Forgent responded to the complaint and alleged that various Scientific-Atlanta digital video recorders infringed the patent and sought damages and injunctive relief. Subsequent to that, another declaratory judgment plaintiff moved to intervene and the cases were combined. On April 25, 2007, prior to trial, Scientific-Atlanta and Forgent settled their dispute on terms that are not material to us, and the lawsuits were dismissed with prejudice on April 30, 2007.

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 I, Item 1A. Risk Factors We may be found to infringe on intellectual property rights of others herein.

### **ITEM 4. Submission of Matters to a Vote of Security Holders**

None.



**Table of Contents****PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

(a) On June 19, 2007, we issued an aggregate of 12,855,889 shares of our common stock in connection with the acquisition of IronPort Systems, Inc. The offer and sale of the securities were effected without registration in reliance on the exemption afforded by Section 3(a)(10) of the Securities Act of 1933, as amended. The issuance was approved, after a hearing upon the fairness of the terms and conditions of the transaction, by the California Department of Corporations under authority to grant such approval as expressly authorized by the laws of the State of California.

The market price and related Cisco shareholder information required by this item are incorporated by reference to the section entitled "Stock Market Information" on page 79 of our 2007 Annual Report to Shareholders.

(b) None.

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

| Period                         | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Total<br>Number of<br>Shares<br>Purchased(1) | Average<br>Price Paid<br>per Share(1) | Total Number<br>of Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(2) | Approximate<br>Dollar Value<br>of Shares<br>That May Yet<br>Be Purchased<br>Under the<br>Plans or<br>Programs(2) |
|--------------------------------|---|---------------------------------------|--|--|
|                                |   |                                       |  |  |
| April 29, 2007 to May 26, 2007 | 20  | \$ 26.24                              | 20   | \$ 4,737   |
| May 27, 2007 to June 23, 2007  | 14  | \$ 26.73                              | 14   | \$ 4,363   |
| June 24, 2007 to July 28, 2007 | 20  | \$ 28.82                              | 20   | \$ 8,771   |
| Total                          | 54  | \$ 27.33                              | 54   |  |

(1) Includes shares repurchased to satisfy tax withholding obligations that arise 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 July 28, 2007, our Board of Directors had authorized the repurchase of up to \$52 billion of common stock under this program, which includes the July 26, 2007 authorization to repurchase up to an additional \$5 billion of our common stock with no termination date. During fiscal 2007, we repurchased and retired 297 million shares of our common stock at an average price of \$26.12 per share for an aggregate purchase price of \$7.8 billion. As of July 28, 2007, we had repurchased and retired 2.2 billion shares of our common stock at an average price of \$19.40 per share for an aggregate purchase price of \$43.2 billion since inception of the stock repurchase program, and the remaining authorized amount for stock repurchases under this program was \$8.8 billion with no termination date.

**ITEM 6. Selected Financial Data**

The information required by this item is incorporated by reference to page 18 of our 2007 Annual Report to Shareholders.

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**



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The information required by this item is incorporated by reference to pages 19 to 41 of our 2007 Annual Report to Shareholders.

### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is incorporated by reference to pages 42 to 44 of our 2007 Annual Report to Shareholders.

### **ITEM 8. Financial Statements and Supplementary Data**

The information required by this item is incorporated by reference to pages 45 to 78 and the section entitled "Supplementary Financial Data (Unaudited)" on page 79 of our 2007 Annual Report to Shareholders.

### **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

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**ITEM 9A. 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.

**Internal Control Over Financial Reporting**

Management's report on our internal control over financial reporting and the report of our independent registered public accounting firm are incorporated by reference to the portion of page 16 under the caption "Management's Report on Internal Control Over Financial Reporting" and the portion of page 17 under the caption "Internal Control Over Financial Reporting," respectively, of our 2007 Annual Report to Shareholders.

There was no change in our internal control over financial reporting during our fourth quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information**

None.

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**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

The information required by this item relating to our directors and nominees, regarding compliance with Section 16(a) of the Securities Act of 1934, and regarding our Audit Committee is included under the captions Proposal No. 1: Election of Directors General and Business Experience of Nominees, Ownership of Securities Section 16(a) Beneficial Ownership Reporting Compliance, and Proposal No. 1: Election of Directors Board Committees and Meetings in our Proxy Statement related to the 2007 Annual Meeting of Shareholders and is incorporated herein by reference.

Pursuant to General Instruction G(3) of Form 10-K, the information required by this item relating to our executive officers is included under the caption Executive Officers of the Registrant in Part I of this report.

We have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including the principal financial officer and principal accounting officer. This code of ethics, which consists of the Special Ethics Obligations for Employees with Financial Reporting Responsibilities section of our Code of Business Conduct that applies to employees generally, is posted on our Website. The Internet address for our Website is [www.cisco.com](http://www.cisco.com), and the code of ethics may be found from our main Web page by clicking first on About Cisco and then on Corporate Governance under Investor Relations, next on Code of Business Conduct under Corporate Governance, and finally on Special Ethics Obligations for Employees with Financial Reporting Responsibilities.

We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our Website, at the address and location specified above.

**ITEM 11. Executive Compensation**

The information appearing under the headings Proposal No. 1: Election of Directors Director Compensation and Executive Compensation and Related Information in our Proxy Statement related to the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item relating to security ownership of certain beneficial owners and management is included under the caption Ownership of Securities, and the information required by this item relating to securities authorized for issuance under equity compensation plans is included under the caption Proposal No. 2: Approval of Amendment and Extension of 2005 Stock Incentive Plan Equity Compensation Plan Information, in each case in our Proxy Statement related to the 2007 Annual Meeting of Shareholders, and is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item relating to review, approval or ratification of transactions with related persons is included under the captions Review, Approval or Ratification of Transactions with Related Persons and Certain Transactions with Related Persons, and the information required by this item relating to director independence is included under the caption Proposal No. 1: Election of Directors Independent Directors, in each case in our Proxy Statement related to the 2007 Annual Meeting of Shareholders, and is incorporated herein by reference.

**ITEM 14. Principal Accountant Fees and Services**

The information required by this item is included under the captions Proposal No. 4: Ratification of Independent Registered Public Accounting Firm Principal Accountant Fees and Services and Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm in our Proxy Statement related to the 2007 Annual Meeting of Shareholders and is incorporated herein by reference.

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**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules**

(a) 1. Financial Statements

The Index to Financial Statements and Financial Statement Schedule on page 29 is incorporated herein by reference as the list of financial statements required as part of this report.

2. Financial Statement Schedule

The Index to Financial Statements and Financial Statement Schedule on page 29 is incorporated herein by reference as the list of financial statement schedules required as part of this report.

3. Exhibits

The exhibit list in the Index to Exhibits is incorporated herein by reference as the list of exhibits required as part of this report.

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**INDEX TO FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULE**

**Item 15(a)**

|   | <b>Page</b>         |
|---|---------------------|
|   | <b>2007 Annual</b>  |
|   | <b>Report to</b>    |
|   | <b>Form 10-K</b>    |
|   | <b>Shareholders</b> |
| Management's Report on Internal Control Over Financial Reporting  | 16                  |
| Report of Independent Registered Public Accounting Firm   | 17                  |
| Consolidated Statements of Operations for each of the three years in the period ended July 28, 2007           | 45                  |
| Consolidated Balance Sheets at July 28, 2007 and July 29, 2006  | 46                  |
| Consolidated Statements of Cash Flows for each of the three years in the period ended July 28, 2007           | 47                  |
| Consolidated Statements of Shareholders' Equity for each of the three years in the period ended July 28, 2007 | 48                  |
| Notes to Consolidated Financial Statements  | 49-78               |
| Supplementary Financial Data (Unaudited) and Stock Market Information Fiscal 2007 and 2006 by Quarter         | 79                  |
| Financial Statement Schedule:   |                     |
| <u>Schedule II Valuation and Qualifying Accounts</u>  | 30                  |
| <u>Report of Independent Registered Public Accounting Firm on Financial Statement Schedule</u>                | 31                  |

**Table of Contents****SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS****(in millions)**

|                                       | <b>Allowance for<br/>Doubtful<br/>Accounts</b> |
|---------------------------------------|--|
| <b>Year ended July 30, 2005:</b>      |  |
| Balance at beginning of fiscal year   | \$ 179   |
| Charged to expenses or other accounts |  |
| Deductions                            | (17)   |
| <b>Balance at end of fiscal year</b>  | <b>\$ 162</b>                                  |
| <b>Year ended July 29, 2006:</b>      |  |
| Balance at beginning of fiscal year   | \$ 162   |
| Charged to expenses or other accounts | 24   |
| Deductions                            | (11)   |
| <b>Balance at end of fiscal year</b>  | <b>\$ 175</b>                                  |
| <b>Year ended July 28, 2007:</b>      |  |
| Balance at beginning of fiscal year   | \$ 175   |
| Charged to expenses or other accounts | 6  |
| Deductions                            | (15)   |
| <b>Balance at end of fiscal year</b>  | <b>\$ 166</b>                                  |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON FINANCIAL STATEMENT SCHEDULE**

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

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated September 14, 2007 appearing in the 2007 Annual Report to Shareholders of Cisco Systems, Inc. (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California

September 14, 2007

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

September 17, 2007

CISCO SYSTEMS, INC.

/s/ JOHN T. CHAMBERS  
**John T. Chambers**

**Chairman and Chief Executive Officer****POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. Chambers and Dennis D. Powell, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

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

| <b>Signature</b>                                      | <b>Title</b>  | <b>Date</b>        |
|---|---|--------------------|
| /s/ JOHN T. CHAMBERS<br><b>John T. Chambers</b>       | Chairman, Chief Executive Officer and<br>Director (Principal Executive Officer)       | September 17, 2007 |
| /s/ DENNIS D. POWELL<br><b>Dennis D. Powell</b>       | Executive Vice President and Chief Financial<br>Officer (Principal Financial Officer) | September 17, 2007 |
| /s/ JONATHAN CHADWICK<br><b>Jonathan Chadwick</b>     | Senior Vice President, Corporate Controller, and<br>Principal Accounting Officer      | September 17, 2007 |
| /s/ CAROL A. BARTZ<br><b>Carol A. Bartz</b>           | Lead Independent Director   | September 17, 2007 |
| /s/ M. MICHELE BURNS<br><b>M. Michele Burns</b>       | Director  | September 17, 2007 |
| /s/ MICHAEL D. CAPELLAS<br><b>Michael D. Capellas</b> | Director  | September 17, 2007 |
| /s/ LARRY R. CARTER<br><b>Larry R. Carter</b>         | Director  | September 17, 2007 |



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**Larry R. Carter**

Director

**Brian L. Halla**

/s/ JOHN L. HENNESSY

Director

September 17, 2007

**Dr. John L. Hennessy**

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| Signature                    | Title    | Date               |
|------------------------------|----------|--------------------|
| /s/ RICHARD M. KOVACEVICH    | Director | September 17, 2007 |
| <b>Richard M. Kovacevich</b> |          |                    |
| /s/ RODERICK C. MCGEARY      | Director | September 17, 2007 |
| <b>Roderick C. McGeary</b>   |          |                    |
| /s/ MICHAEL K. POWELL        | Director | September 17, 2007 |
| <b>Michael K. Powell</b>     |          |                    |
| /s/ STEVEN M. WEST           | Director | September 17, 2007 |
| <b>Steven M. West</b>        |          |                    |
|                              | Director |                    |
| <b>Jerry Yang</b>            |          |                    |

**Table of Contents****INDEX TO EXHIBITS**

| Exhibit<br>Number | Exhibit Description   | Incorporated by Reference |           |         |             | Filed    |
|-------------------|---|---------------------------|-----------|---------|-------------|----------|
|                   |   | Form                      | File No.  | Exhibit | Filing Date | Herewith |
| 2.1               | Agreement and Plan of Merger by and among Cisco Systems, Inc., Columbus Acquisition Corp. and Scientific-Atlanta, Inc.  | 8-K                       | 001-05517 | 2.1     | 11/21/2005  |          |
| 2.2               | Agreement and Plan of Merger, dated as of March 15, 2007, among Cisco Systems, Inc., Wonder Acquisition Corp., and WebEx Communications, Inc. s Current Report on Form 8-K (File No. 000-30849) filed March 15, 2007) | 8-K                       | 000-30849 | 2.1     | 3/15/2007   |          |
| 3.1               | Restated Articles of Incorporation of Cisco Systems, Inc., as currently in effect   | S-3                       | 333-56004 | 4.1     | 2/21/2001   |          |
| 3.2               | Amended and Restated Bylaws of Cisco Systems, Inc., as currently in effect  | 8-K                       | 000-18225 | 3.1     | 3/23/2007   |          |
| 4.1               | Indenture, dated February 22, 2006, between Cisco Systems, Inc. and Deutsche Bank Trust Company Americas, as trustee  | 8-K                       | 000-18225 | 4.1     | 2/22/2006   |          |
| 4.2               | Forms of Global Note for the registrant s Floating Rate Notes due 2009, 5.25% Senior Notes due 2011 and 5.50% Senior Notes due 2016   | 8-K                       | 000-18225 | 4.1     | 2/22/2006   |          |
| 10.1*             | Cisco Systems, Inc. Amended and Restated 1996 Stock Incentive Plan (including related form agreements)  |                           |           |         |             | X        |
| 10.2*             | 1997 Supplemental Stock Incentive Plan (including related form agreements)  |                           |           |         |             | X        |
| 10.3*             | Cisco Systems, Inc. 2005 Stock Incentive Plan (including related form agreements)   |                           |           |         |             | X        |
| 10.4*             | Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan (amends and restates the 2003 Long-Term Incentive Plan of Scientific-Atlanta) (including related form agreements)   |                           |           |         |             | X        |
| 10.5*             | Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan. (amends and restates the WebEx Communications, Inc. Amended and Restated 2000 Stock Incentive Plan) (including related form agreements)               |                           |           |         |             | X        |
| 10.6*             | Cisco Systems, Inc. Employee Stock Purchase Plan (including Sub-plan, the International Employee Stock Purchase Plan)   | 10-Q                      | 000-18225 | 10.4    | 11/17/2003  |          |
| 10.7*             | Cisco Systems, Inc. Deferred Compensation Plan, as amended  |                           |           |         |             | X        |
| 10.8*             | Notice of Grant of Stock Option and Stock Option Agreement between John T. Chambers and Cisco Systems, Inc.   | 10-K                      | 000-18225 | 10.6    | 9/20/2004   |          |
| 10.9*             | Professional and Leadership Incentive Plan FY 2007  | 8-K                       | 000-18225 | 10.1    | 7/31/2006   |          |
| 10.10*            | Form of Officer Indemnification Agreement   | 10-K                      | 000-18225 | 10.7    | 9/20/2004   |          |
| 10.11*            | Form of Director Indemnification Agreement  | 10-K                      | 000-18225 | 10.8    | 9/20/2004   |          |
| 10.12             | Credit Agreement dated as of August 17, 2007, 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                    | 8-K                       | 000-18225 | 10.1    | 8/17/2007   |          |
| 13.1              | Pages 16 to 79 of the Registrant s 2007 Annual Report to Shareholders   |                           |           |         |             | X        |
| 21.1              | Subsidiaries of the Registrant  |                           |           |         |             | X        |
| 23.1              | Consent of Independent Registered Public Accounting Firm  |                           |           |         |             | X        |
| 24.1              | Power of Attorney (included on page 32 of this Annual Report on Form 10-K)  |                           |           |         |             | X        |

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|      |   |   |
|------|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer | X |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer | X |
| 32.1 | Section 1350 Certification of Principal Executive Officer             | X |
| 32.2 | Section 1350 Certification of Principal Financial Officer             | X |

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Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Cisco Systems, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

\* Indicates a management contract or compensatory plan or arrangement.