

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**CISCO SYSTEMS, INC.**

CIK:[858877](#) | IRS No.: **770059951** | State of Incorp.:**CA** | Fiscal Year End: **0728**  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

(Mark one)

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

For the quarterly period ended January 26, 2013

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

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**CISCO SYSTEMS, INC.**

(Exact name of Registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**77-0059951**

(I.R.S. Employer  
Identification Number)

**170 West Tasman Drive**

**San Jose, California 95134**

(Address of principal executive office and zip code)

**(408) 526-4000**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller  
reporting company)

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

Number of shares of the registrant's common stock outstanding as of February 14, 2013: 5,331,973,900

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**Cisco Systems, Inc.**  
**FORM 10-Q for the Quarter Ended January 26, 2013**

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**CISCO SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in millions, except par value)  
(Unaudited)**

	January 26, 2013	July 28, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,847	\$ 9,799
Investments	39,529	38,917
Accounts receivable, net of allowance for doubtful accounts of \$218 at January 26, 2013 and \$207 at July 28, 2012	4,462	4,369
Inventories	1,574	1,663
Financing receivables, net	3,894	3,661
Deferred tax assets	2,297	2,294
Other current assets	2,122	1,230
Total current assets	60,725	61,933
Property and equipment, net	3,403	3,402
Financing receivables, net	3,837	3,585
Goodwill	21,361	16,998
Purchased intangible assets, net	3,542	1,959
Other assets	3,510	3,882
<b>TOTAL ASSETS</b>	<b>\$ 96,378</b>	<b>\$ 91,759</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 37	\$ 31
Accounts payable	890	859
Income taxes payable	87	276
Accrued compensation	2,921	2,928
Deferred revenue	9,108	8,852
Other current liabilities	4,907	4,785
Total current liabilities	17,950	17,731
Long-term debt	16,254	16,297
Income taxes payable	1,340	1,844
Deferred revenue	4,213	4,028
Other long-term liabilities	1,096	558
Total liabilities	40,853	40,458
Commitments and contingencies (Note 12)		
Equity:		
Cisco shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	—	—

Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 5,323 and 5,298 shares issued and outstanding at January 26, 2013 and July 28, 2012, respectively	39,970	39,271
Retained earnings	14,647	11,354
Accumulated other comprehensive income	898	661
Total Cisco shareholders' equity	55,515	51,286
Noncontrolling interests	10	15
Total equity	55,525	51,301
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 96,378</b>	<b>\$ 91,759</b>

See Notes to Consolidated Financial Statements.

**CISCO SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per-share amounts)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>NET SALES:</b>				
Product	\$ 9,437	\$ 9,118	\$ 18,734	\$ 18,070
Service	2,661	2,409	5,240	4,713
Total net sales	12,098	11,527	23,974	22,783
<b>COST OF SALES:</b>				
Product	3,857	3,650	7,605	7,213
Service	898	812	1,787	1,615
Total cost of sales	4,755	4,462	9,392	8,828
<b>GROSS MARGIN</b>	<b>7,343</b>	<b>7,065</b>	<b>14,582</b>	<b>13,955</b>
<b>OPERATING EXPENSES:</b>				
Research and development	1,452	1,339	2,883	2,714
Sales and marketing	2,387	2,395	4,803	4,847
General and administrative	584	497	1,144	1,049
Amortization of purchased intangible assets	118	97	240	196
Restructuring and other charges	13	3	72	205
Total operating expenses	4,554	4,331	9,142	9,011
<b>OPERATING INCOME</b>	<b>2,789</b>	<b>2,734</b>	<b>5,440</b>	<b>4,944</b>
Interest income	160	158	321	322
Interest expense	(147)	(150)	(295)	(298)
Other income (loss), net	(22)	7	(55)	26
Interest and other income (loss), net	(9)	15	(29)	50
<b>INCOME BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>	<b>2,780</b>	<b>2,749</b>	<b>5,411</b>	<b>4,994</b>
Provision for (benefit from) income taxes	(363)	567	176	1,035
<b>NET INCOME</b>	<b>\$ 3,143</b>	<b>\$ 2,182</b>	<b>\$ 5,235</b>	<b>\$ 3,959</b>
<b>Net income per share:</b>				
Basic	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
Diluted	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
<b>Shares used in per-share calculation:</b>				
Basic	5,318	5,368	5,310	5,381
Diluted	5,357	5,401	5,344	5,404
Cash dividends declared per common share	\$ 0.14	\$ 0.06	\$ 0.28	\$ 0.12

See Notes to Consolidated Financial Statements.

**CISCO SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Net income	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
Available-for-sale investments:				
Change in net unrealized gains, net of tax benefit (expense) of \$(47) and \$(46) for the three and six months ended January 26, 2013, respectively, and \$2 and \$28 for the corresponding periods of fiscal 2012, respectively	69	10	73	(43)
Net gains reclassified into earnings, net of tax effects of \$5 and \$14 for the three and six months ended January 26, 2013, respectively, and \$14 and \$16 for the corresponding periods of fiscal 2012, respectively	(9)	(24)	(26)	(30)
	<u>60</u>	<u>(14)</u>	<u>47</u>	<u>(73)</u>
Cash flow hedging instruments:				
Change in unrealized gains and losses, net of tax expense of \$(1) for each of the three and six months ended January 26, 2013	2	(44)	68	(94)
Net (gains) losses reclassified into earnings	(8)	26	(3)	26
	<u>(6)</u>	<u>(18)</u>	<u>65</u>	<u>(68)</u>
Net change in cumulative translation adjustment and other, net of tax (expense) benefit of \$(5) and \$(15) for the three and six months ended January 26, 2013, respectively, and \$10 and \$31 for the corresponding periods of fiscal 2012, respectively	6	(106)	120	(317)
Other comprehensive income (loss)	<u>60</u>	<u>(138)</u>	<u>232</u>	<u>(458)</u>
Comprehensive income	3,203	2,044	5,467	3,501
Comprehensive loss attributable to noncontrolling interests	5	7	5	14
Comprehensive income attributable to Cisco Systems, Inc.	<u>\$ 3,208</u>	<u>\$ 2,051</u>	<u>\$ 5,472</u>	<u>\$ 3,515</u>

See Notes to Consolidated Financial Statements.

**CISCO SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(Unaudited)

	Six Months Ended	
	January 26, 2013	January 28, 2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,235	\$ 3,959
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, amortization, and other	1,223	1,185
Share-based compensation expense	608	695
Provision for receivables	12	43
Deferred income taxes	148	29
Excess tax benefits from share-based compensation	(32)	(32)
Net losses (gains) on investments	14	(11)
<b>Change in operating assets and liabilities, net of effects of acquisitions and divestitures:</b>		
Accounts receivable	100	761
Inventories	194	(194)
Financing receivables	(403)	(551)
Other assets	(63)	(505)
Accounts payable	(17)	(78)
Income taxes, net	(1,444)	146
Accrued compensation	(161)	(508)
Deferred revenue	407	304
Other liabilities	(7)	191
Net cash provided by operating activities	<u>5,814</u>	<u>5,434</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(14,234)	(17,810)
Proceeds from sales of investments	4,991	12,291
Proceeds from maturities of investments	8,652	4,039
Acquisition of property and equipment	(552)	(549)
Acquisition of businesses, net of cash and cash equivalents acquired	(6,035)	(109)
Purchases of investments in privately held companies	(116)	(231)
Return of investments in privately held companies	68	124
Other	30	160
Net cash used in investing activities	<u>(7,196)</u>	<u>(2,085)</u>
<b>Cash flows from financing activities:</b>		
Issuances of common stock	652	653
Repurchases of common stock - repurchase program	(645)	(2,210)
Shares repurchased for tax withholdings on vesting of restricted stock units	(212)	(145)
Short-term borrowings, maturities less than 90 days, net	4	17
Excess tax benefits from share-based compensation	32	32
Dividends paid	(1,487)	(644)
Other	86	(153)



Net cash used in financing activities	(1,570)	(2,450)
Net (decrease) increase in cash and cash equivalents	(2,952)	899
Cash and cash equivalents, beginning of period	9,799	7,662
Cash and cash equivalents, end of period	\$ 6,847	\$ 8,561
Cash paid for:		
Interest	\$ 341	\$ 340
Income taxes	\$ 1,472	\$ 860

See Notes to Consolidated Financial Statements.

**CISCO SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(in millions, except per-share amounts)  
(Unaudited)

Six Months Ended January 26, 2013	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Cisco Shareholders' Equity	Non- controlling Interests	Total Equity
BALANCE AT JULY 28, 2012	5,298	\$ 39,271	\$ 11,354	\$ 661	\$ 51,286	\$ 15	\$ 51,301
Net income			5,235		5,235		5,235
Other comprehensive income				237	237	(5)	232
Issuance of common stock	76	652			652		652
Repurchase of common stock - repurchase program	(40)	(298)	(455)		(753)		(753)
Shares repurchased for tax withholdings on vesting of restricted stock units	(11)	(212)			(212)		(212)
Cash dividends declared (\$0.28 per common share)			(1,487)		(1,487)		(1,487)
Tax effects from employee stock incentive plans		(97)			(97)		(97)
Share-based compensation expense		608			608		608
Purchase acquisitions and other		46			46		46
BALANCE AT JANUARY 26, 2013	5,323	\$ 39,970	\$ 14,647	\$ 898	\$ 55,515	\$ 10	\$ 55,525

Six Months Ended January 28, 2012	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Cisco Shareholders' Equity	Non- controlling Interests	Total Equity
BALANCE AT JULY 30, 2011	5,435	\$ 38,648	\$ 7,284	\$ 1,294	\$ 47,226	\$ 33	\$ 47,259
Net income			3,959		3,959		3,959
Other comprehensive loss				(444)	(444)	(14)	(458)
Issuance of common stock	78	653			653		653
Repurchase of common stock - repurchase program	(126)	(901)	(1,109)		(2,010)		(2,010)
Shares repurchased for tax withholdings on vesting of restricted stock units	(9)	(145)			(145)		(145)
Cash dividends declared (\$0.12 per common share)			(644)		(644)		(644)
Tax effects from employee stock incentive plans		(48)			(48)		(48)
Share-based compensation expense		695			695		695
Purchase acquisitions and other		4			4		4
BALANCE AT JANUARY 28, 2012	5,378	\$ 38,906	\$ 9,490	\$ 850	\$ 49,246	\$ 19	\$ 49,265

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 26, 2013, the Company's Board of Directors had authorized an aggregate repurchase of up to \$82 billion of common stock under this program with no termination date. For additional information regarding stock repurchases, see Note 13 to the Consolidated Financial Statements. The stock repurchases since the inception of this program and the related impacts on Cisco shareholders' equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid- In Capital	Retained Earnings	Total Cisco Shareholders' Equity
Repurchases of common stock under the repurchase program	3,780	\$ 17,339	\$ 59,547	\$ 76,886

See Notes to Consolidated Financial Statements.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The fiscal year for Cisco Systems, Inc. (the "Company" or "Cisco") is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2013 and fiscal 2012 are each 52-week fiscal years. The Consolidated Financial Statements include the accounts of Cisco and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company conducts business globally and is primarily managed on a geographic basis in the following three geographic segments: the Americas; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific, Japan, and China ("APJC").

The accompanying financial data as of January 26, 2013 and for the three and six months ended January 26, 2013 and January 28, 2012 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The July 28, 2012 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 28, 2012.

The Company consolidates its investment in a venture fund managed by SOFTBANK Corp. and its affiliates ("SOFTBANK") and Insieme Networks, Inc. ("Insieme") as these are variable interest entities and the Company is the primary beneficiary. The noncontrolling interests attributed to SOFTBANK are presented as a separate component from the Company's equity in the equity section of the Consolidated Balance Sheets. SOFTBANK's share of the earnings in the venture fund and the loss attributable to the noncontrolling interests in Insieme are not presented separately in the Consolidated Statements of Operations as these amounts are not material for any of the fiscal periods presented.

In the opinion of management, all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly the statement of financial position as of January 26, 2013; the results of operations for the three and six months ended January 26, 2013 and January 28, 2012; and the statements of cash flows and equity for the six months ended January 26, 2013 and January 28, 2012, as applicable, have been made. The results of operations for the three and six months ended January 26, 2013 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Certain reclassifications have been made to prior period amounts in order to conform to the current period's presentation. The Company has evaluated subsequent events through the date that the financial statements were issued.

**2. Recent Accounting Pronouncements**

**(a) New Accounting Updates Recently Adopted**

In June 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to provide guidance on increasing the prominence of items reported in other comprehensive income, which eliminated the option to present components of other comprehensive income as part of the statement of equity. The Company adopted this accounting standard in the first quarter of fiscal 2013.

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

**(b) Recent Accounting Standards or Updates Not Yet Effective**

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

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

In July 2012, the FASB issued an accounting standard update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, and early adoption is permitted. The adoption of this accounting standard update is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, at which time the Company will include the required disclosures.

**3. Business Combinations**

**(a) Acquisition Summary**

On July 30, 2012, the Company completed its acquisition of NDS Group Limited (“NDS”), a leading provider of video software and content security solutions that enable service providers and media companies to securely deliver and monetize new video entertainment experiences. The acquisition of NDS is expected to complement and accelerate the delivery of Cisco Videoscape, the Company's comprehensive content delivery platform that enables service providers and media companies to deliver next-generation entertainment experiences. With the NDS acquisition, the Company aims to broaden its opportunities in the service provider market and to expand its reach into emerging markets such as China and India, where NDS has an established customer presence.

Under the terms of the acquisition agreement, the Company paid total cash consideration of approximately \$5.0 billion, which included the repayment of \$993 million of pre-existing NDS debt to third party creditors at the closing of the acquisition. The following table summarizes the purchase consideration for the NDS acquisition (in millions):

	Fair Value
Cash consideration to seller	\$ 4,012
Repayment of NDS debt to third party creditors	993
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

The payment of the total purchase consideration of approximately \$5.0 billion shown above, net of cash and cash equivalents acquired, is classified as a use of cash under investing activities in the Consolidated Statements of Cash Flows.

The Company's purchase price allocation for NDS is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

A summary of the preliminary allocation of the total purchase consideration for NDS is presented as follows (in millions):

	Fair Value
Cash and cash equivalents	\$ 98
Accounts receivable, net	199
Other tangible assets	268
Goodwill	3,444
Purchased intangible assets	1,746
Deferred tax liabilities, net	(378)
Liabilities assumed	(372)
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The Company completed seven additional business combinations during the six months ended January 26, 2013. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Purchase Consideration	Net Liabilities Assumed	Purchased Intangible Assets	Goodwill
Meraki Inc.	\$ 974	\$ (59)	\$ 289	\$ 744
All others (six in total)	233	(15)	72	176
<b>Total other acquisitions</b>	<b>\$ 1,207</b>	<b>\$ (74)</b>	<b>\$ 361</b>	<b>\$ 920</b>

The Company acquired privately held Meraki Inc. ("Meraki") in the second quarter of fiscal 2013. Meraki offers mid-market customers on-premise networking solutions centrally managed from the cloud. With its acquisition of Meraki, the Company intends to address the shift to cloud networking as a key part of the Company's overall strategy to accelerate the adoption of software-based business models that provide new consumption options for customers and revenue opportunities for partners. The Company has included sales from the Meraki acquisition, subsequent to the acquisition date, in its Wireless product category.

The total purchase consideration related to the Company's business combinations completed during the six months ended January 26, 2013 consisted of cash consideration, repayment of debt, and vested share-based awards assumed. The total cash and cash equivalents acquired from these business combinations were approximately \$131 million.

**(b) Other Acquisition/Divestiture Information**

Total transaction costs related to the Company's business combination activities were \$17 million and \$2 million for the six months ended January 26, 2013 and January 28, 2012, respectively. These transaction costs were expensed as incurred as general and administrative ("G&A") expenses in the Consolidated Statements of Operations.

The goodwill generated from the Company's business combinations completed during the six months ended January 26, 2013 is primarily related to expected synergies. The goodwill is generally not deductible for U.S. federal income tax purposes.

The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations for the acquisitions completed during the six months ended January 26, 2013 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's financial results.

During the second quarter of fiscal 2013, the Company agreed to sell its Linksys product line to a third party. The financial statement impact of the Company's Linksys product line was not material for any of the periods presented. This transaction is expected to close during the third quarter of fiscal 2013, subject to customary closing conditions.

**(c) Pending Acquisition of Intucell**

On January 23, 2013, the Company announced that it had entered into a definitive agreement to acquire privately held Intucell Ltd. ("Intucell"). Intucell provides advanced self-optimizing network software for mobile carriers. The acquisition of Intucell enhances the Company's commitment to global service providers by adding a critical network intelligence layer to manage and optimize spectrum, coverage and capacity, and ultimately the quality of the mobile experience.

Under the agreement, the Company has agreed to pay approximately \$475 million in cash and retention-based incentives to acquire Intucell. The acquisition is expected to close in the third quarter of fiscal 2013 and is subject to customary closing conditions, including regulatory review.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**4. Goodwill and Purchased Intangible Assets**

**(a) Goodwill**

The following table presents the goodwill allocated to the Company's reportable segments as of and during the six months ended January 26, 2013 (in millions):

	Balance at July 28, 2012	NDS Acquisition	Other Acquisitions	Other	Balance at January 26, 2013
Americas	\$ 11,755	\$ 1,230	\$ 520	\$ (1)	\$ 13,504
EMEA	3,287	1,327	266	—	4,880
APJC	1,956	887	134	—	2,977
Total	\$ 16,998	\$ 3,444	\$ 920	\$ (1)	\$ 21,361

In the preceding table, the column entitled "Other" primarily relates to purchase accounting adjustments.

**(b) Purchased Intangible Assets**

The following table presents details of the Company's intangible assets acquired through business combinations completed during the six months ended January 26, 2013 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES		TOTAL
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D	Amount	
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount			
NDS Group Limited	6.4	\$ 807	6.7	\$ 818	7.4	\$ 27	\$ 94	\$ 1,746	
Meraki Inc.	8.0	259	6.0	30	—	—	—	289	
All other acquisitions	4.7	45	5.6	12	7.0	1	14	72	
Total		\$ 1,111		\$ 860		\$ 28	\$ 108	\$ 2,107	

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

January 26, 2013	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 3,400	\$ (1,154)	\$ 2,246
Customer relationships	3,118	(1,890)	1,228
Other	67	(41)	26
Total purchased intangible assets with finite lives	6,585	(3,085)	3,500
In-process research and development, with indefinite lives	42	—	42
Total	\$ 6,627	\$ (3,085)	\$ 3,542

July 28, 2012	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 2,267	\$ (908)	\$ 1,359
Customer relationships	2,261	(1,669)	592
Other	49	(41)	8
Total	\$ 4,577	\$ (2,618)	\$ 1,959

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

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Amortization of purchased intangible assets:</b>				
Cost of sales	\$ 145	\$ 99	\$ 288	\$ 195
Operating expenses	118	97	240	196
Total	\$ 263	\$ 196	\$ 528	\$ 391

There were no impairment charges related to purchased intangible assets during the periods presented.

The estimated future amortization expense of purchased intangible assets with finite lives as of January 26, 2013 is as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 467
2014	840
2015	760
2016	533
2017	380
Thereafter	520
Total	\$ 3,500

## 5. Restructuring and Other Charges

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

Pursuant to the restructuring that the Company announced in July 2011, the Company has incurred cumulative charges of approximately \$1.1 billion (included as part of the charges discussed below). The Company has substantially completed the July 2011 restructuring and does not expect significant remaining charges related to these actions. The following table summarizes the activities related to the restructuring and other charges pursuant to the Company's July 2011 announcement related to the realignment and restructuring of the Company's business as well as certain consumer product lines as announced during April 2011 (in millions):

	Voluntary Early Retirement Program	Employee Severance	Goodwill and Intangible Assets	Other	Total
Gross charges in fiscal 2011	\$ 453	\$ 247	\$ 71	\$ 28	\$ 799
Cash payments	(436)	(13)	—	—	(449)
Non-cash items	—	—	(71)	(17)	(88)
BALANCE AT JULY 30, 2011	\$ 17	\$ 234	\$ —	\$ 11	\$ 262
Gross charges in fiscal 2012	—	299	—	54	353
Change in estimate related to fiscal 2011 charges	—	(49)	—	—	(49)
Cash payments	(17)	(401)	—	(18)	(436)
Non-cash items	—	—	—	(20)	(20)



BALANCE AT JULY 28, 2012	\$	—	\$	83	\$	—	\$	27	\$	110
Charges in fiscal 2013		—		77		—		(5)		72
Cash payments		—		(139)		—		(10)		(149)
Non-cash items		—		—		—		(3)		(3)
BALANCE AT JANUARY 26, 2013	\$	—	\$	21	\$	—	\$	9	\$	30

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**6. Balance Sheet Details**

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

	January 26, 2013	July 28, 2012
<b>Inventories:</b>		
Raw materials	\$ 113	\$ 127
Work in process	24	35
Finished goods:		
Distributor inventory and deferred cost of sales	648	630
Manufactured finished goods	498	597
Total finished goods	1,146	1,227
Service-related spares	248	213
Demonstration systems	43	61
Total	<u>\$ 1,574</u>	<u>\$ 1,663</u>
<b>Property and equipment, net:</b>		
Land, buildings, and building and leasehold improvements	\$ 4,491	\$ 4,363
Computer equipment and related software	1,455	1,469
Production, engineering, and other equipment	5,642	5,364
Operating lease assets <sup>(1)</sup>	304	300
Furniture and fixtures	493	487
	12,385	11,983
Less accumulated depreciation and amortization <sup>(1)</sup>	(8,982)	(8,581)
Total	<u>\$ 3,403</u>	<u>\$ 3,402</u>
<b>Other assets:</b>		
Deferred tax assets	\$ 1,807	\$ 2,270
Investments in privately held companies	869	858
Other	834	754
Total	<u>\$ 3,510</u>	<u>\$ 3,882</u>
<b>Deferred revenue:</b>		
Service	\$ 9,055	\$ 9,173
Product:		
Unrecognized revenue on product shipments and other deferred revenue	3,309	2,975
Cash receipts related to unrecognized revenue from two-tier distributors	957	732
Total product deferred revenue	4,266	3,707
Total	<u>\$ 13,321</u>	<u>\$ 12,880</u>
<b>Reported as:</b>		
Current	\$ 9,108	\$ 8,852
Noncurrent	4,213	4,028

<sup>(1)</sup> Accumulated depreciation related to operating lease assets was \$186 and \$181 as of January 26, 2013 and July 28, 2012, respectively.

Total

<u>\$</u>	<u>13,321</u>	<u>\$</u>	<u>12,880</u>
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**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**7. Financing Receivables and Guarantees**

**(a) Financing Receivables**

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

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

<u>January 26, 2013</u>	<u>Lease Receivables</u>	<u>Loan Receivables</u>	<u>Financed Service Contracts and Other</u>	<u>Total Financing Receivables</u>
Gross	\$ 3,717	\$ 1,785	\$ 2,863	\$ 8,365
Unearned income	(273)	—	—	(273)
Allowance for credit loss	(247)	(101)	(13)	(361)
Total, net	<u>\$ 3,197</u>	<u>\$ 1,684</u>	<u>\$ 2,850</u>	<u>\$ 7,731</u>
<b>Reported as:</b>				
Current	\$ 1,349	\$ 960	\$ 1,585	\$ 3,894
Noncurrent	1,848	724	1,265	3,837
Total, net	<u>\$ 3,197</u>	<u>\$ 1,684</u>	<u>\$ 2,850</u>	<u>\$ 7,731</u>
<b>Reported as:</b>				
Current	\$ 1,200	\$ 968	\$ 1,493	\$ 3,661
Noncurrent	1,732	706	1,147	3,585
Total, net	<u>\$ 2,932</u>	<u>\$ 1,674</u>	<u>\$ 2,640</u>	<u>\$ 7,246</u>
<b>Reported as:</b>				
Current	\$ 1,200	\$ 968	\$ 1,493	\$ 3,661
Noncurrent	1,732	706	1,147	3,585
Total, net	<u>\$ 2,932</u>	<u>\$ 1,674</u>	<u>\$ 2,640</u>	<u>\$ 7,246</u>

As of January 26, 2013 and July 28, 2012, the deferred service revenue related to the financed service contracts and other was \$1,943 million and \$1,838 million, respectively.

Contractual maturities of the gross lease receivables at January 26, 2013 are summarized as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2013 (remaining six months)	\$ 878
2014	1,345
2015	863
2016	437
2017	194

Total

\$ 3,717

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

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(b) Credit Quality of Financing Receivables**

Financing receivables categorized by the Company's internal credit risk rating as of January 26, 2013 and July 28, 2012 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING				Residual Value	Gross Receivables, Net of Unearned Income
	1 to 4	5 to 6	7 and Higher	Total		
<u>January 26, 2013</u>						
Lease receivables	\$ 1,607	\$ 1,505	\$ 58	\$ 3,170	\$ 274	\$ 3,444
Loan receivables	882	857	46	1,785	—	1,785
Financed service contracts and other	1,579	1,179	105	2,863	—	2,863
Total	\$ 4,068	\$ 3,541	\$ 209	\$ 7,818	\$ 274	\$ 8,092

	INTERNAL CREDIT RISK RATING				Residual Value	Gross Receivables, Net of Unearned Income
	1 to 4	5 to 6	7 and Higher	Total		
<u>July 28, 2012</u>						
Lease receivables	\$ 1,532	\$ 1,342	\$ 31	\$ 2,905	\$ 274	\$ 3,179
Loan receivables	831	921	44	1,796	—	1,796
Financed service contracts and other	1,552	1,030	69	2,651	—	2,651
Total	\$ 3,915	\$ 3,293	\$ 144	\$ 7,352	\$ 274	\$ 7,626

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers: lease receivables, loan receivables, and financed service contracts and other.

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

In circumstances when collectibility is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company's revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of January 26, 2013 and July 28, 2012 were \$2,429 million and \$2,387 million, respectively, and they were associated with financing receivables (net of unearned income) of \$8,092 million and \$7,626 million as of their respective period ends. The losses that the Company has incurred historically, including in the periods presented with respect to its financing receivables, have been immaterial and consistent with the performance of an investment-grade portfolio. The Company did not modify any financing receivables during the periods presented.

The following tables present the aging analysis of financing receivables as of January 26, 2013 and July 28, 2012 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)					Total Past Due	Current	Gross Receivables, Net of Unearned Income	Non-Accrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+							
<u>January 26, 2013</u>										
Lease receivables	\$ 182	\$ 34	\$ 230	\$ 446	\$ 2,998	\$ 3,444	\$ 49	\$ 33		
Loan receivables	12	3	11	26	1,759	1,785	32	32		
Financed service contracts and other	305	37	251	593	2,270	2,863	21	13		
Total	\$ 499	\$ 74	\$ 492	\$ 1,065	\$ 7,027	\$ 8,092	\$ 102	\$ 78		



**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

DAYS PAST DUE (INCLUDES BILLED  
AND UNBILLED)

July 28, 2012	31-60	61-90	91+	Total Past Due	Current	Gross Receivables, Net of Unearned Income	Non-Accrual Financing Receivables	Impaired Financing Receivables
Lease receivables	\$ 151	\$ 69	\$ 173	\$ 393	\$ 2,786	\$ 3,179	\$ 23	\$ 14
Loan receivables	10	8	11	29	1,767	1,796	4	4
Financed service contracts and other	89	68	392	549	2,102	2,651	18	10
Total	<u>\$ 250</u>	<u>\$ 145</u>	<u>\$ 576</u>	<u>\$ 971</u>	<u>\$ 6,655</u>	<u>\$ 7,626</u>	<u>\$ 45</u>	<u>\$ 28</u>

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables is presented by contract, and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The balances of either unbilled or current financing receivables included in the category of 91 days plus past due for lease receivables, loan receivables, and financed service contracts and other were, respectively, \$179 million, \$6 million, and \$199 million as of January 26, 2013; and were, respectively, \$139 million, \$3 million, and \$313 million as of July 28, 2012.

As of January 26, 2013, the Company had financing receivables of \$82 million, net of unbilled or current receivables from the same contract, that were in the category for 91 days plus past due but remained on accrual status. Such balance was \$109 million as of July 28, 2012. A financing receivable may be placed on nonaccrual status earlier if, in management's opinion, a timely collection of the full principal and interest becomes uncertain.

**(c) Allowance for Credit Loss Rollforward**

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

	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 28, 2012	\$ 247	\$ 122	\$ 11	\$ 380
Provisions	(2)	(10)	1	(11)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	3	2	—	5
Allowance for credit loss as of October 27, 2012	248	114	12	374
Provisions	(1)	(14)	2	(13)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	—	1	(1)	—
Allowance for credit loss as of January 26, 2013	<u>\$ 247</u>	<u>\$ 101</u>	<u>\$ 13</u>	<u>\$ 361</u>
Gross receivables as of January 26, 2013, net of unearned income	\$ 3,444	\$ 1,785	\$ 2,863	\$ 8,092

	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 30, 2011	\$ 237	\$ 103	\$ 27	\$ 367
Provisions	2	5	2	9
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(6)	(5)	—	(11)



Allowance for credit loss as of October 29, 2011	233	103	29	365
Provisions	18	4	(18)	4
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(1)	3	(2)	—
Allowance for credit loss as of January 28, 2012	\$ 250	\$ 110	\$ 9	\$ 369
Gross receivables as of January 28, 2012, net of unearned income	\$ 3,049	\$ 1,673	\$ 2,666	\$ 7,388

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The Company assesses the allowance for credit loss related to financing receivables on either an individual or a collective basis. The Company considers various factors in evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis. These factors include the Company's historical experience, credit quality and age of the receivable balances, and economic conditions that may affect a customer's ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including any accrued interest, will be assessed and fully reserved at the customer level.

Typically, the Company also considers receivables with a risk rating of 8 or higher to be impaired and will include them in the individual assessment for allowance. Financing receivables that were individually evaluated for impairment during the periods presented were not material and therefore are not presented separately in the preceding tables.

The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. When evaluating the financing receivables on a collective basis, the Company uses expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk, and correlation.

**(d) Financing Guarantees**

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

Channel Partner Financing Guarantees The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The volume of channel partner financing was \$5.8 billion and \$5.4 billion for the three months ended January 26, 2013 and January 28, 2012, respectively. The volume of channel partner financing was \$11.4 billion and \$10.7 billion for the six months ended January 26, 2013 and January 28, 2012, respectively. The balance of the channel partner financing subject to guarantees was \$1.4 billion and \$1.2 billion as of January 26, 2013 and July 28, 2012, respectively.

End-User Financing Guarantees The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans, which typically have terms of up to three years. The volume of financing provided by third parties for leases and loans as to which the Company had provided guarantees was \$55 million and \$60 million for the three months ended January 26, 2013 and January 28, 2012, respectively, and was \$99 million and \$95 million for the six months ended January 26, 2013 and January 28, 2012, respectively.

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at January 26, 2013 and July 28, 2012, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

	January 26, 2013	July 28, 2012
<b>Maximum potential future payments relating to financing guarantees:</b>		
Channel partner	\$ 491	\$ 277
End user	254	232
Total	\$ 745	\$ 509
<b>Deferred revenue associated with financing guarantees:</b>		
Channel partner	\$ (267)	\$ (193)
End user	(217)	(200)
Total	\$ (484)	\$ (393)
<b>Maximum potential future payments relating to financing guarantees, net of associated deferred revenue</b>	<b>\$ 261</b>	<b>\$ 116</b>



**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**8. Investments**

**(a) Summary of Available-for-Sale Investments**

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

<u>January 26, 2013</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed income securities:</b>				
U.S. government securities	\$ 25,147	\$ 31	\$ (1)	\$ 25,177
U.S. government agency securities	3,776	14	—	3,790
Non-U.S. government and agency securities	1,329	7	—	1,336
Corporate debt securities	7,021	99	(2)	7,118
Total fixed income securities	37,273	151	(3)	37,421
Publicly traded equity securities	1,484	628	(4)	2,108
Total	<u>\$ 38,757</u>	<u>\$ 779</u>	<u>\$ (7)</u>	<u>\$ 39,529</u>

<u>July 28, 2012</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed income securities:</b>				
U.S. government securities	\$ 24,201	\$ 41	\$ (1)	\$ 24,241
U.S. government agency securities	5,367	21	—	5,388
Non-U.S. government and agency securities	1,629	9	—	1,638
Corporate debt securities	5,959	74	(3)	6,030
Total fixed income securities	37,156	145	(4)	37,297
Publicly traded equity securities	1,107	524	(11)	1,620
Total	<u>\$ 38,263</u>	<u>\$ 669</u>	<u>\$ (15)</u>	<u>\$ 38,917</u>

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

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

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Gross realized gains	\$ 191	\$ 188	\$ 263	\$ 424
Gross realized losses	(178)	(151)	(223)	(378)
Total	<u>\$ 13</u>	<u>\$ 37</u>	<u>\$ 40</u>	<u>\$ 46</u>

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012

Net gains (losses) on investments in publicly traded equity securities	\$ 4	\$ 31	\$ 14	\$ 15
Net gains on investments in fixed income securities	9	6	26	31
Total	\$ 13	\$ 37	\$ 40	\$ 46

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

There were no impairment charges on available-for-sale investments for the periods presented.

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at January 26, 2013 and July 28, 2012 (in millions):

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>January 26, 2013</u>						
Fixed income securities:						
U.S. government securities	\$ 2,617	\$ (1)	\$ —	\$ —	\$ 2,617	\$ (1)
Corporate debt securities	1,014	(2)	—	—	1,014	(2)
Total fixed income securities	3,631	(3)	—	—	3,631	(3)
Publicly traded equity securities	36	(4)	—	—	36	(4)
Total	\$ 3,667	\$ (7)	\$ —	\$ —	\$ 3,667	\$ (7)

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>July 28, 2012</u>						
Fixed income securities:						
U.S. government securities	\$ 5,357	\$ (1)	\$ —	\$ —	\$ 5,357	\$ (1)
Corporate debt securities	603	(3)	14	—	617	(3)
Total fixed income securities	5,960	(4)	14	—	5,974	(4)
Publicly traded equity securities	167	(8)	20	(3)	187	(11)
Total	\$ 6,127	\$ (12)	\$ 34	\$ (3)	\$ 6,161	\$ (15)

As of January 26, 2013, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of January 26, 2013, the Company anticipates that it will recover the entire amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three and six months ended January 26, 2013.

The Company has evaluated its publicly traded equity securities as of January 26, 2013 and has determined that there was no indication of other-than-temporary impairments in the respective categories of unrealized losses. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

**(c) Maturities of Fixed Income Securities**

The following table summarizes the maturities of the Company's fixed income securities at January 26, 2013 (in millions):

	Amortized Cost	Fair Value
Less than 1 year	\$ 16,215	\$ 16,234
Due in 1 to 2 years	10,710	10,752
Due in 2 to 5 years	10,230	10,310
Due after 5 years	118	125

Total	\$ 37,273	\$ 37,421
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Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(d) Securities Lending**

The Company periodically engages in securities lending activities with certain of its available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the six months ended January 26, 2013 and January 28, 2012 was \$0.8 billion and \$0.4 billion, respectively. The Company requires collateral equal to at least 102% of the fair market value of the loaned security in the form of cash or in the form of liquid, high-quality assets. The Company engages in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify the Company against collateral losses. The Company did not experience any losses in connection with the secured lending of securities during the periods presented. As of January 26, 2013 and July 28, 2012, the Company had no outstanding securities lending transactions.

**9. Fair Value**

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

**(a) Fair Value Hierarchy**

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

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

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

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



**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

Assets and liabilities measured at fair value on a recurring basis as of January 26, 2013 and July 28, 2012 were as follows (in millions):

	JANUARY 26, 2013				JULY 28, 2012			
	FAIR VALUE MEASUREMENTS				FAIR VALUE MEASUREMENTS			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
<b>Assets</b>								
Cash equivalents:								
Money market funds	\$ 4,513	\$ —	\$ —	\$ 4,513	\$ 2,506	\$ —	\$ —	\$ 2,506
Available-for-sale investments:								
U.S. government securities	—	25,177	—	25,177	—	24,241	—	24,241
U.S. government agency securities	—	3,790	—	3,790	—	5,388	—	5,388
Non-U.S. government and agency securities	—	1,336	—	1,336	—	1,638	—	1,638
Corporate debt securities	—	7,118	—	7,118	—	6,030	—	6,030
Publicly traded equity securities	2,108	—	—	2,108	1,620	—	—	1,620
Derivative assets	—	244	—	244	—	263	1	264
Total	\$ 6,621	\$ 37,665	\$ —	\$ 44,286	\$ 4,126	\$ 37,560	\$ 1	\$ 41,687
<b>Liabilities:</b>								
Derivative liabilities	\$ —	\$ 57	\$ —	\$ 57	\$ —	\$ 42	\$ —	\$ 42
Total	\$ —	\$ 57	\$ —	\$ 57	\$ —	\$ 42	\$ —	\$ 42

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

Level 3 assets include certain derivative instruments, the values of which are determined based on discounted cash flow models using inputs that the Company could not corroborate with market data.

There was no material activity related to assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended January 26, 2013.

The following table presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended January 28, 2012 (in millions):

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

Balance at January 28, 2012

\$	—	\$	1	\$	1
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**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The Company's asset-backed securities were reclassified from Level 3 to Level 2 at January 28, 2012, the end of the Company's second quarter for fiscal 2012, as circumstances indicated an increase in market activity and related observable market data was available for these financial assets.

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

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

	January 26, 2013		
	Net Carrying Value as of End of Period	Total Losses for the Three Months Ended	Total Losses for the Six Months Ended
Investments in privately held companies	\$ 60	\$ (8)	\$ (18)

  

	January 28, 2012		
	Net Carrying Value as of End of Period	Total Gains (Losses) for the Three Months Ended	Total Gains (Losses) for the Six Months Ended
Investments in privately held companies	\$ 6	\$ (1)	\$ (2)
Property held for sale	\$ 39	(27)	(116)
Gains on assets no longer held at period end		14	14
Total losses for nonrecurring measurements		\$ (14)	\$ (104)

The assets in the preceding tables were measured at fair value due to events or circumstances the Company identified as having significant impact on their fair value during the respective periods. To arrive at the valuation of these assets, the Company considers any significant changes in the financial metrics and economic variables, and also uses third-party valuation reports to assist in the valuation as necessary. These assets were classified as Level 3 assets because the Company used unobservable inputs to value them.

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

The property held for sale represents land and buildings which met the criteria to be classified as held for sale. The fair value of property held for sale was measured with the assistance of third-party valuation models which used discounted cash flow techniques as part of their analysis. The fair value measurement was categorized as Level 3 as significant unobservable inputs were used in the valuation report. The impairment charges as a result of the valuations, which represented the difference between the fair value less cost to sell and the carrying amount of the assets held for sale, were included in G&A expenses.

**(d) Other Fair Value Disclosures**

The carrying value of the Company's investments in privately held companies that were accounted for under the cost method was \$239 million and \$249 million as of January 26, 2013 and July 28, 2012, respectively. It was not practicable to estimate the fair value of this portfolio.

The fair value of the Company's short-term loan receivables and financed service contracts approximates their carrying value due to their short duration. The aggregate carrying value of the Company's long-term loan receivables and financed service contracts and other as of January 26, 2013 and July 28, 2012 was \$2.0 billion and \$1.9 billion, respectively. The estimated fair value of the Company's long-term loan receivables and financed service contracts and other approximates their carrying value. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value of its long-term loan receivables and financed service contracts, and therefore they are categorized as Level 3.

As of January 26, 2013, the fair value of the Company's long-term debt was \$18.3 billion with a carrying amount of \$16.3 billion. This compares to a fair value of \$18.8 billion and a carrying amount of \$16.3 billion as of July 28, 2012. The fair value of the long-term debt was determined based on observable market prices in a less active market and was categorized as Level 2 in the fair value hierarchy.



**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**10. Borrowings**

**(a) Short-Term Debt**

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

	January 26, 2013		July 28, 2012	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Other notes and borrowings	\$ 37	9.60%	\$ 31	6.72%

In fiscal 2011, the Company established a short-term debt financing program of up to \$3.0 billion through the issuance of commercial paper notes. The Company uses the proceeds from the issuance of commercial paper notes for general corporate purposes. The Company had no commercial paper notes outstanding as of each of January 26, 2013 and July 28, 2012.

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

As of January 26, 2013, the estimated fair value of the short-term debt approximates its carrying value due to the short maturities.

**(b) Long-Term Debt**

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

	January 26, 2013		July 28, 2012	
	Amount	Effective Rate	Amount	Effective Rate
<b>Senior Notes:</b>				
Floating-rate notes, due 2014	\$ 1,250	0.57%	\$ 1,250	0.81%
1.625% fixed-rate notes, due 2014	2,000	0.68%	2,000	0.84%
2.90% fixed-rate notes, due 2014	500	3.11%	500	3.11%
5.50% fixed-rate notes, due 2016	3,000	3.08%	3,000	3.16%
3.15% fixed-rate notes, due 2017	750	0.87%	750	1.03%
4.95% fixed-rate notes, due 2019	2,000	5.08%	2,000	5.08%
4.45% fixed-rate notes, due 2020	2,500	4.50%	2,500	4.50%
5.90% fixed-rate notes, due 2039	2,000	6.11%	2,000	6.11%
5.50% fixed-rate notes, due 2040	2,000	5.67%	2,000	5.67%
<b>Total</b>	<b>16,000</b>		<b>16,000</b>	
Other long-term debt	10	0.19%	10	0.19%
Unaccreted discount	(67)		(70)	
Hedge accounting fair value adjustments	311		357	
<b>Total long-term debt</b>	<b>\$ 16,254</b>		<b>\$ 16,297</b>	

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

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

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The senior notes rank at par with the commercial paper notes that may be issued in the future pursuant to the Company's short-term debt financing program, as discussed above under "Short-Term Debt." As of January 26, 2013, the Company was in compliance with all debt covenants.

Future principal payments for long-term debt as of January 26, 2013 are summarized as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2013 (remaining six months)	\$ —
2014	3,260
2015	500
2016	3,000
2017	750
Thereafter	8,500
Total	<u>\$ 16,010</u>

**(c) Credit Facility**

On February 17, 2012, the Company entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America's "prime rate" as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on the Company's senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc. The credit agreement requires the Company to comply with certain covenants, including that it maintains an interest coverage ratio as defined in the agreement. As of January 26, 2013, the Company was in compliance with all such required covenants, and the Company had not borrowed any funds under the credit facility.

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

**11. Derivative Instruments**

**(a) Summary of Derivative Instruments**

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

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
	Balance Sheet Line Item	January 26, 2013	July 28, 2012	Balance Sheet Line Item	January 26, 2013	July 28, 2012
<b>Derivatives designated as hedging instruments:</b>						
Foreign currency derivatives	Other current assets	\$ 34	\$ 24	Other current liabilities	\$ 2	\$ 26
Interest rate derivatives	Other assets	194	223	Other long-term liabilities	—	—
Equity derivatives	Other current assets	—	—	Other current liabilities	43	4
<b>Total</b>		<b>228</b>	<b>247</b>		<b>45</b>	<b>30</b>
<b>Derivatives not designated as hedging instruments:</b>						
Foreign currency derivatives	Other current assets	16	16	Other current liabilities	12	12
Equity derivatives	Other assets	—	1	Other long-term liabilities	—	—
<b>Total</b>		<b>16</b>	<b>17</b>		<b>12</b>	<b>12</b>
<b>Total</b>		<b>\$ 244</b>	<b>\$ 264</b>		<b>\$ 57</b>	<b>\$ 42</b>

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

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		Line Item in Statements of Operations	GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)	
	January 26, 2013	January 28, 2012		January 26, 2013	January 28, 2012
<b>Derivatives designated as cash flow hedging instruments:</b>					
Foreign currency derivatives	\$ 3	\$ (44)	Operating expenses	\$ 6	\$ (22)
			Cost of sales - service	2	(4)
<b>Total</b>	<b>\$ 3</b>	<b>\$ (44)</b>		<b>\$ 8</b>	<b>\$ (26)</b>

<b>Derivatives designated as net investment hedging instruments:</b>					
Foreign currency derivatives	\$ —	\$ (2)	Other income (loss), net	\$ —	\$ —

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)		Line Item in Statements of Operations	GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)	
	January 26, 2013	January 28, 2012		January 26, 2013	January 28, 2012
<b>Derivatives designated as cash flow hedging instruments:</b>					
Foreign currency derivatives	\$ 69	\$ (94)	Operating expenses	\$ 2	\$ (22)
			Cost of sales - service	1	(4)
<b>Total</b>	<b>\$ 69</b>	<b>\$ (94)</b>		<b>\$ 3</b>	<b>\$ (26)</b>

<b>Derivatives designated as net investment hedging instruments:</b>					
Foreign currency derivatives	\$ (24)	\$ (6)	Other income (loss), net	\$ —	\$ —

During the three and six months ended January 26, 2013 and January 28, 2012, the amounts recognized in earnings on derivative instruments designated as cash flow hedges and net investment hedges related to the ineffective portion were not material, and the



Company did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness.

As of January 26, 2013, the Company estimates that approximately \$25 million of net derivative gains related to its cash flow hedges included in accumulated other comprehensive income ("AOCI") will be reclassified into earnings within the next 12 months.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE THREE MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE THREE MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (39)	\$ —	\$ 39	\$ —
Interest rate derivatives	Interest expense	(11)	41	11	(42)
<b>Total</b>		<b>\$ (50)</b>	<b>\$ 41</b>	<b>\$ 50</b>	<b>\$ (42)</b>

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE SIX MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (42)	\$ —	\$ 42	\$ —
Interest rate derivatives	Interest expense	(29)	76	29	(78)
<b>Total</b>		<b>\$ (71)</b>	<b>\$ 76</b>	<b>\$ 71</b>	<b>\$ (78)</b>

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

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

Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) FOR THE THREE MONTHS ENDED		GAINS (LOSSES) FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Foreign currency derivatives	Other income (loss), net	\$ (41)	\$ (88)	\$ 12	\$ (145)
Total return swaps - deferred compensation	Cost of sales	—	3	—	3
	Operating expenses	19	10	33	(10)
Equity derivatives	Other income (loss), net	3	(18)	12	(11)
<b>Total</b>		<b>\$ (19)</b>	<b>\$ (93)</b>	<b>\$ 57</b>	<b>\$ (163)</b>

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

	January 26, 2013	July 28, 2012
<b>Derivatives designated as hedging instruments:</b>		
Foreign currency derivatives - cash flow hedges	\$ 1,646	\$ 2,910
Interest rate derivatives	4,250	4,250
Net investment hedging instruments	325	468
Equity derivatives	629	272

Derivatives not designated as hedging instruments:

Foreign currency derivatives	4,231	6,241
Total return swaps-deferred compensation	324	269
Total	<u>\$ 11,405</u>	<u>\$ 14,410</u>

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(b) Foreign Currency Exchange Risk**

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

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

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

The Company hedges certain net investments in its foreign operations with forward contracts to reduce the effects of foreign currency fluctuations on the Company's net investment in those foreign subsidiaries. These derivative instruments generally have maturities of up to six months.

**(c) Interest Rate Risk**

Interest Rate Derivatives, Investments The Company's primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. To realize these objectives, the Company may utilize interest rate swaps or other derivatives designated as fair value or cash flow hedges. As of January 26, 2013 and July 28, 2012, the Company did not have any outstanding interest rate derivatives related to its fixed income securities.

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

**(d) Equity Price Risk**

The Company may hold equity securities for strategic purposes or to diversify its overall investment portfolio. The publicly traded equity securities in the Company's portfolio are subject to price risk. To manage its exposure to changes in the fair value of certain equity securities, the Company may enter into equity derivatives that are designated as fair value hedges. The changes in the value of the hedging instruments are included in other income (loss), net, and offset the change in the fair value of the underlying hedged investment. In addition, the Company periodically manages the risk of its investment portfolio by entering into equity derivatives that are not designated as accounting hedges. The changes in the fair value of these derivatives are also included in other income (loss), net.

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

**(e) Credit-Risk-Related Contingent Features**

Certain derivative instruments are executed under agreements that have provisions requiring the Company and the counterparty to maintain a specified credit rating from certain credit rating agencies. If the Company's or the counterparty's credit-rating falls below a

specified credit rating, either party has the right to request collateral on the derivatives' net liability position. Such provisions did not affect the Company's financial position as of January 26, 2013 and July 28, 2012.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**12. Commitments and Contingencies**

**(a) Operating Leases**

The Company leases office space in many U.S. locations. Outside the United States, larger leased sites include sites in Australia, China, France, Germany, India, Israel, Italy, Japan, Norway, and the United Kingdom. The Company also leases equipment and vehicles. Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of January 26, 2013 are as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2013 (remaining six months)	\$ 182
2014	281
2015	237
2016	120
2017	83
Thereafter	226
Total	<u>\$ 1,129</u>

**(b) Purchase Commitments with Contract Manufacturers and Suppliers**

The Company purchases components from a variety of suppliers and uses several contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by the Company or establish the parameters defining the Company's requirements. A significant portion of the Company's reported purchase commitments arising from these agreements consists of firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule, and adjust the Company's requirements based on its business needs prior to firm orders being placed. As of January 26, 2013 and July 28, 2012, the Company had total purchase commitments for inventory of \$3,824 million and \$3,869 million, respectively.

The Company records a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of its future demand forecasts consistent with the valuation of the Company's excess and obsolete inventory. As of January 26, 2013 and July 28, 2012, the liability for these purchase commitments was \$169 million and \$193 million, respectively, and was included in other current liabilities.

**(c) Other Commitments**

In connection with the Company's business combinations and asset purchases, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or the continued employment with the Company of certain employees of the acquired entities. The Company recognized such compensation expense of \$23 million and \$14 million during the three months ended January 26, 2013 and January 28, 2012, respectively, and \$35 million and \$28 million during the six months ended January 26, 2013 and January 28, 2012, respectively. As of January 26, 2013, the Company estimated that future compensation expense and contingent consideration of up to \$1.1 billion may be required to be recognized pursuant to the applicable business combination and asset purchase agreements, which included a maximum potential \$863 million in milestone payments related to Insieme as more fully discussed in the subsection entitled "Insieme" within section (d) immediately below.

The Company also has certain funding commitments, primarily related to its investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were \$133 million and \$120 million as of January 26, 2013 and July 28, 2012, respectively.

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**(d) Variable Interest Entities**

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

As of January 26, 2013, the Company's cumulative gross investment in VCE was approximately \$457 million, inclusive of accrued interest, and its ownership percentage was approximately 35%.

The Company accounts for its investment in VCE under the equity method, and its portion of VCE's net loss is recognized in other income (loss), net. The Company's consolidated share of VCE's losses, based upon its portion of the overall funding, was approximately 36.8% for each of the three and six months ended January 26, 2013 and January 28, 2012. As of January 26, 2013, the Company has recorded cumulative losses from VCE of \$325 million since inception, of which losses of \$44 million and \$55 million were recorded for the three months ended January 26, 2013 and January 28, 2012, respectively, and a loss of \$86 million was recorded for each of the six months ended January 26, 2013 and January 28, 2012. The Company's carrying value in VCE as of January 26, 2013 of \$132 million is recorded in other assets.

Over the next 12 months, as VCE scales its operations, the Company expects that it will make additional investments in VCE and may incur additional losses proportionate with the Company's share ownership.

From time to time, EMC and Cisco may enter into guarantee agreements on behalf of VCE to indemnify third parties, such as customers, for monetary damages. Such guarantees were not material as of January 26, 2013.

*Insieme* In the third quarter of fiscal 2012, the Company made an investment in Insieme, an early stage company focused on research and development in the data center market. As set forth in the agreement between the Company and Insieme, this investment includes \$100 million of funding and a license to certain of the Company's technology. In addition, pursuant to a November 2012 amendment to the agreement between the Company and Insieme, the Company agreed to invest an additional \$35 million in Insieme upon the satisfaction of certain conditions. As of January 26, 2013, the Company owned approximately 87% of Insieme as a result of these investments and has consolidated the results of Insieme in its Consolidated Financial Statements.

The net loss attributable to the noncontrolling interests was not presented separately in the Consolidated Statements of Operations due to the amount being immaterial. In connection with this investment, the Company and Insieme have entered into a put/call option agreement that provides the Company with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders can require the Company to purchase their shares upon the occurrence of certain events. If the Company acquires the remaining interests of Insieme, the noncontrolling interest holders are eligible to receive two milestone payments, which will be determined using agreed-upon formulas based on revenue for certain of Insieme's products. The Company will begin recognizing the amounts due under the milestone payments when it is determined that such payments are probable of being earned, which the Company expects may be in fiscal 2014. When such a determination is made, the milestone payments will then be recorded as compensation expense by the Company based on an estimate of the fair value of the amounts probable of being earned, pursuant to a vesting schedule. Subsequent changes to the fair value of the amounts probable of being earned and the continued vesting will result in adjustments to the recorded compensation expense. The maximum amount that could be recorded as compensation expense by the Company is approximately \$863 million. This maximum amount was increased from the previous maximum of \$750 million due to a November 2012 amendment to the agreement, as the parties recognized that higher staffing levels may be necessary to perform additional product development. The milestone payments, if earned, are expected to be paid primarily during fiscal 2016 and fiscal 2017.

*Other Variable Interest Entities* In the ordinary course of business, the Company has investments in other privately held companies and provides financing to certain customers. These other privately held companies and customers may be considered to be variable interest entities. The Company evaluates on an ongoing basis its investments in these other privately held companies and its customer financings and has determined that as of January 26, 2013 there were no other variable interest entities required to be consolidated in the Company's Consolidated Financial Statements.

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**(e) Product Warranties and Guarantees**

The following table summarizes the activity related to product warranty liability during the six months ended January 26, 2013 and January 28, 2012 (in millions):

	Six Months Ended	
	January 26, 2013	January 28, 2012
Balance at beginning of period	\$ 415	\$ 342
Provision for warranties issued	319	331
Payments	(310)	(266)
Balance at end of period	<u>\$ 424</u>	<u>\$ 407</u>

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

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

The Company also provides financing guarantees, which are generally for various third-party financing arrangements to channel partners and other end-user customers. See Note 7 to the Consolidated Financial Statements. The Company's other guarantee arrangements as of January 26, 2013 and July 28, 2012 that were subject to recognition and disclosure requirements were not material.

**(f) Legal Proceedings**

Brazilian authorities have investigated the Company's Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of the Company's products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against the Company's Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In addition to claims asserted by the Brazilian federal tax authorities in prior fiscal years, tax authorities from the Brazilian state of Sao Paulo have asserted similar claims on the same legal basis in prior fiscal years. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against the Company's Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008, and the asserted claims by the tax authorities from the state of Sao Paulo, are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to approximately \$426 million for the alleged evasion of import and other taxes, approximately \$1.1 billion for interest, and approximately \$1.9 billion for various penalties, all determined using an exchange rate as of January 26, 2013. The Company has completed a thorough review of the matters and believes the asserted claims against the Company's Brazilian subsidiary are without merit, and the Company is defending the claims vigorously. While the Company believes there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, the Company is unable to determine the likelihood of an unfavorable outcome against its Brazilian subsidiary and is unable to reasonably estimate a range of loss, if any. The Company does not expect a final judicial determination for several years.



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

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

The Company is subject to patent claims asserted by VirnetX, Inc. on August 11, 2010 in the Federal District Court for the Eastern District of Texas. VirnetX alleges that various Cisco products that implement a method for secure communication using virtual private networks infringe certain patents. VirnetX seeks monetary damages. The trial on these claims is scheduled to begin in March 2013. The Company believes that it has strong arguments that its products do not use the technology described in the patents and that the patents are invalid. If the jury were to find that Cisco's products infringe and find that the patents are not invalid, the Company believes that damages, as appropriately measured, would not be material given the limited contribution played by the alleged patented technology. However, due to the uncertainty surrounding the litigation process, the Company is unable to reasonably estimate the ultimate outcome of this litigation at this time.

The Company and a service provider customer are subject to patent claims asserted by TiVo, Inc. on June 4, 2012 in the Federal District Court for the Eastern District of Texas. TiVo alleges that the Company's digital video recorders deployed by the service provider customer infringe certain of its patents. TiVo seeks monetary damages and injunctive relief. The trial on these claims is scheduled to begin in March 2014. The Company intends to show at trial that its products do not use the technology described in the patents.

TiVo previously filed a similar patent lawsuit against the same service provider customer, accusing digital video recorders manufactured by one of the Company's competitors. The outcome of that case, which is scheduled for trial in May 2013, could have an impact on the timing and outcome of the Company's case. Due to the uncertainty surrounding the litigation process, which involves numerous defendants, the Company is unable to reasonably estimate the ultimate outcome of this litigation at this time.

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

### 13. Shareholders' Equity

#### (a) Stock Repurchase Program

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 26, 2013, the Company's Board of Directors had authorized an aggregate repurchase of up to \$82 billion of common stock under this program, and the remaining authorized repurchase amount was \$5.1 billion with no termination date. A summary of the stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted- Average Price per Share	Amount Repurchased
Cumulative balance at July 28, 2012	3,740	\$ 20.36	\$ 76,133
Repurchase of common stock under the stock repurchase program	40	18.73	753
Cumulative balance at January 26, 2013	3,780	\$ 20.34	\$ 76,886



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

**(b) Cash Dividends on Shares of Common Stock**

During the six months ended January 26, 2013, the Company declared and paid cash dividends of \$0.28 per common share, or \$1.5 billion, on the Company's outstanding common stock. During the six months ended January 28, 2012, the Company declared and paid cash dividends of \$0.12 per common share, or \$644 million, on the Company's outstanding common stock.

Any future dividends will be subject to the approval of the Company's Board of Directors.

**(c) Other Repurchases of Common Stock**

For the six months ended January 26, 2013 and January 28, 2012, the Company repurchased approximately 11 million and 9 million shares, or \$212 million and \$145 million, of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

**(d) Accumulated Other Comprehensive Income**

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest, for the six months ended January 26, 2013 and January 28, 2012 are summarized as follows (in millions):

	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 28, 2012	\$ 409	\$ (53)	\$ 305	\$ 661
Other comprehensive income attributable to Cisco Systems, Inc.	52	65	120	237
BALANCE AT JANUARY 26, 2013	<u>\$ 461</u>	<u>\$ 12</u>	<u>\$ 425</u>	<u>\$ 898</u>

	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 30, 2011	\$ 487	\$ 6	\$ 801	\$ 1,294
Other comprehensive loss attributable to Cisco Systems, Inc.	(59)	(68)	(317)	(444)
BALANCE AT JANUARY 28, 2012	<u>\$ 428</u>	<u>\$ (62)</u>	<u>\$ 484</u>	<u>\$ 850</u>

**14. Employee Benefit Plans**

**(a) Employee Stock Incentive Plans**

Stock Incentive Plan Program Description As of January 26, 2013, the Company had five stock incentive plans: the 2005 Stock Incentive Plan (the "2005 Plan"); the 1996 Stock Incentive Plan (the "1996 Plan"); the 1997 Supplemental Stock Incentive Plan (the "Supplemental Plan"); the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan (the "SA Acquisition Plan"); and the Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan (the "WebEx Acquisition Plan"). In addition, the Company has, in connection with the acquisitions of various companies, assumed the share-based awards granted under stock incentive plans of the acquired companies or issued share-based awards in replacement thereof. Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency

of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors. Since the inception of the stock incentive plans, the Company has granted share-based awards to a significant percentage of its employees, and the majority has been granted to employees below the vice president level. The Company's primary stock incentive plans are summarized as follows:

2005 Plan As amended on November 15, 2007, the maximum number of shares issuable under the 2005 Plan over its term is 559 million shares plus the amount of any shares underlying awards outstanding on November 15, 2007 under the 1996 Plan,

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the SA Acquisition Plan, and the WebEx Acquisition Plan that are forfeited or are terminated for any other reason before being exercised or settled. If any awards granted under the 2005 Plan are forfeited or are terminated for any other reason before being exercised or settled, then the shares underlying the awards will again be available under the 2005 Plan.

Pursuant to an amendment approved by the Company's shareholders on November 12, 2009, the number of shares available for issuance under the 2005 Plan was reduced by 1.5 shares for each share awarded as a stock grant or a stock unit, and any shares underlying awards outstanding under the 1996 Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that expire unexercised at the end of their maximum terms become available for reissuance under the 2005 Plan. The 2005 Plan permits the granting of stock options, restricted stock, restricted stock units ("RSUs"), the vesting of which may be performance-based or market-based along with the requisite service requirement, and stock appreciation rights to employees (including employee directors and officers), consultants of the Company and its subsidiaries and affiliates, and non-employee directors of the Company. Stock options and stock appreciation rights granted under the 2005 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and prior to November 12, 2009 have an expiration date no later than nine years from the grant date. The expiration date for stock options and stock appreciation rights granted subsequent to the amendment approved on November 12, 2009 shall be no later than ten years from the grant date.

The stock options will generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Time-based stock grants and time-based RSUs will generally vest with respect to 20% or 25% of the shares or share units covered by the grant on each of the first through fifth or fourth anniversaries of the date of the grant, respectively. Performance-based and market-based RSUs typically vest at the end of the three year requisite service period or earlier if the award recipient meets certain retirement eligibility conditions. The Compensation and Management Development Committee of the Board of Directors has the discretion to use different vesting schedules. Stock appreciation rights may be awarded in combination with stock options or stock grants, and such awards shall provide that the stock appreciation rights will not be exercisable unless the related stock options or stock grants are forfeited. Stock grants may be awarded in combination with non-statutory stock options, and such awards may provide that the stock grants will be forfeited in the event that the related non-statutory stock options are exercised.

1996 Plan The 1996 Plan expired on December 31, 2006, and the Company can no longer make equity awards under the 1996 Plan. The maximum number of shares issuable over the term of the 1996 Plan was 2.5 billion shares. Stock options granted under the 1996 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and expire no later than nine years from the grant date. The stock options generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Certain other grants have utilized a 60-month ratable vesting schedule. In addition, the Board of Directors, or other committees administering the 1996 Plan, have the discretion to use a different vesting schedule and have done so from time to time.

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

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

**(b) Employee Stock Purchase Plan**

The Company has an Employee Stock Purchase Plan, which includes its subplan, the International Employee Stock Purchase Plan (together, the "Purchase Plan"), under which 471.4 million shares of the Company's common stock have been reserved for issuance as of January 26, 2013. Eligible employees are offered shares through a 24-month offering period, which consists of four consecutive 6-month purchase periods. Employees may purchase a limited number of shares of the Company's stock at a discount of up to 15% of the lesser of the market value at the beginning of the offering period or the end of each 6-month purchase period. The Purchase Plan is scheduled to terminate on January 3, 2020. The Company issued 18 million shares under the Purchase Plan during each of the six

months ended January 26, 2013 and January 28, 2012. As of January 26, 2013, 69 million shares were available for issuance under the Purchase Plan.

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**(c) Summary of Share-Based Compensation Expense**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Cost of sales - product	\$ 11	\$ 14	\$ 21	\$ 27
Cost of sales - service	36	40	71	77
Share-based compensation expense in cost of sales	47	54	92	104
Research and development	72	99	156	200
Sales and marketing	135	149	265	291
General and administrative	48	54	98	102
Restructuring and other charges	—	(2)	(3)	(2)
Share-based compensation expense in operating expenses	255	300	516	591
<b>Total share-based compensation expense</b>	<b>\$ 302</b>	<b>\$ 354</b>	<b>\$ 608</b>	<b>\$ 695</b>

As of January 26, 2013, the total compensation cost related to unvested share-based awards not yet recognized was \$2.3 billion, which is expected to be recognized over approximately 2.6 years on a weighted-average basis. The income tax benefit for share-based compensation expense was \$80 million and \$159 million for the three and six months ended January 26, 2013, respectively, and \$93 million and \$183 million for the three and six months ended January 28, 2012, respectively.

The Company uses third-party analyses to assist in developing the assumptions used in, as well as calibrating, its lattice-binomial and Black-Scholes models. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

The Company used the implied volatility for traded options (with contract terms corresponding to the expected life of the employee stock purchase rights) on the Company's stock as the expected volatility assumption required in the Black-Scholes model. The implied volatility is more representative of future stock price trends than historical volatility. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company's employee stock purchase rights. The dividend yield assumption is based on the history and expectation of dividend payouts at the grant date.

The use of the lattice-binomial model requires extensive actual employee exercise behavior data for the relative probability estimation purpose, and a number of complex assumptions as presented in the preceding table. The estimated kurtosis and skewness are technical measures of the distribution of stock price returns, which affect expected employee stock option exercise behaviors, and are based on the Company's stock price return history as well as consideration of various academic analyses. The expected life of employee stock options is a derived output of the lattice-binomial model, which represents the weighted-average period the stock options are expected to remain outstanding.

**(d) Share-Based Awards Available for Grant**

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

	Share-Based Awards Available for Grant
BALANCE AT JULY 30, 2011	255
Restricted stock, stock units, and other share-based awards granted	(95)
Share-based awards canceled/forfeited/expired	64
Other	(6)
<b>BALANCE AT JULY 28, 2012</b>	<b>218</b>
Restricted stock, stock units, and other share-based awards granted	(78)

Share-based awards canceled/forfeited/expired	89
Other	(3)
BALANCE AT JANUARY 26, 2013	<u>226</u>



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

**(e) Restricted Stock and Stock Unit Awards**

A summary of the restricted stock and stock unit activity, which includes time-based and performance-based or market-based restricted stock units, is as follows (in millions, except per-share amounts):

	Restricted Stock/ Stock Units	Weighted-Average Grant Date Fair Value per Share	Aggregated Fair Market Value
UNVESTED BALANCE AT JULY 30, 2011	116	\$ 21.50	
Granted and assumed	65	17.45	
Vested	(35)	21.94	\$ 580
Canceled/forfeited	(18)	20.38	
UNVESTED BALANCE AT JULY 28, 2012	128	19.46	
Granted and assumed	55	17.35	
Vested	(33)	21.03	\$ 624
Canceled/forfeited	(5)	18.33	
UNVESTED BALANCE AT JANUARY 26, 2013	145	\$ 18.35	

The valuation of RSUs is summarized as follows:

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Number of shares granted (in millions)	37	33	48	44
Weighted- average grant date fair value per share	\$ 17.07	\$ 17.88	\$ 17.20	\$ 17.34
Expected dividend yield	3.1%	1.3%	3.0%	1.3%

In addition to the RSUs in the preceding table, the Company granted approximately 4 million performance-based stock unit awards ("PRSUs") during the first quarter of fiscal 2013. The Company granted approximately 1 million and 2 million such awards for the three and six months ended January 28, 2012, respectively. These PRSUs are contingent on the achievement of the Company's financial performance metrics or its comparative market-based returns. On the date of grant, the Company estimated the fair value of restricted stock units with market-based conditions using a Monte Carlo simulation model. The Company used the assumptions in the preceding table to determine the grant date fair value of restricted stock units with performance metrics conditions.

**(f) Stock Option Awards**

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

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 30, 2011	621	\$ 21.79
Assumed from acquisitions	1	2.08
Exercised	(66)	13.51
Canceled/forfeited/expired	(36)	23.40

BALANCE AT JULY 28, 2012	520	22.68
Assumed from acquisitions	7	0.92
Exercised	(26)	15.25
Canceled/forfeited/expired	(82)	21.32
BALANCE AT JANUARY 26, 2013	419	\$ 23.08

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The following table summarizes significant ranges of outstanding and exercisable stock options as of January 26, 2013 (in millions, except years and share prices):

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
\$ 0.01 – 15.00	11	5.80	\$ 4.83	\$ 181	7	\$ 7.20	\$ 91
15.01 – 18.00	69	1.66	17.79	232	69	17.79	231
18.01 – 20.00	86	0.86	19.17	170	86	19.17	170
20.01 – 25.00	129	2.48	22.77	7	128	22.77	8
25.01 – 35.00	124	3.62	30.69	—	123	30.71	—
Total	419	2.44	\$ 23.08	\$ 590	413	\$ 23.31	\$ 500

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$21.15 as of January 25, 2013, which would have been received by the option holders had those option holders exercised their stock options as of that date. The total number of in-the-money stock options exercisable as of January 26, 2013 was 174 million. As of July 28, 2012, 512 million outstanding stock options were exercisable and the weighted-average exercise price was \$22.65.

#### 15. Income Taxes

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Income before provision for (benefit from) income taxes	\$ 2,780	\$ 2,749	\$ 5,411	\$ 4,994
Provision for (benefit from) income taxes	\$ (363)	\$ 567	\$ 176	\$ 1,035
Effective tax rate	(13.1)%	20.6%	3.3%	20.7%

As discussed further below, the effective tax rate for the three and six months ended January 26, 2013 reflected the Company's recognition of total tax benefits of approximately \$926 million related to a tax settlement with the Internal Revenue Service ("IRS") and the reinstatement of the U.S. federal research and development ("R&D") tax credit on January 2, 2013.

In the second quarter of fiscal 2013, the IRS and the Company settled all outstanding items related to the audit of the Company's federal income tax returns for the fiscal years ended July 27, 2002 through July 28, 2007. As a result of the settlement, the Company increased its income tax receivable by \$733 million and recognized a net benefit to the provision for income taxes of \$794 million, which included a reduction in interest expense of \$157 million. The Company is no longer subject to U.S. federal income tax audit through fiscal 2007.

As a result of the IRS tax settlement, the amount of gross unrecognized tax benefits was reduced by approximately \$1.0 billion, of which \$154 million, which was previously paid by the Company, became certain as a result of completing the audit. The total amount of gross unrecognized tax benefits was \$1.9 billion as of January 26, 2013, of which \$1.6 billion would affect the effective tax rate if realized. Although timing of the resolution of audits is highly uncertain, the Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits as of January 26, 2013 will materially change in the next 12 months.

In the second quarter of fiscal 2013, the American Taxpayer Relief Act of 2012 reinstated the U.S. federal R&D tax credit, retroactive to January 1, 2012. As a result, during the three months ended January 26, 2013, the Company recognized total tax benefits of \$132 million, of which \$72 million related to fiscal 2012 R&D expenses.



**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**16. Segment Information and Major Customers**

**(a) Net Sales and Gross Margin by Segment**

The Company conducts business globally and is primarily managed on a geographic basis consisting of three segments: the Americas; EMEA; and APJC. The Company's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to a segment based on the ordering location of the customer. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its segments in this internal management system because management does not include the information in its measurement of the performance of the operating segments. In addition, the Company does not allocate amortization and impairment of acquisition-related intangible assets, share-based compensation expense, impacts to cost of sales from purchase accounting adjustments to inventory, charges related to asset impairments and restructurings, and certain other charges to the gross margin for each segment because management does not include this information in its measurement of the performance of the operating segments.

Summarized financial information by segment for the three and six months ended January 26, 2013 and January 28, 2012, based on the Company's internal management system and as utilized by the Company's Chief Operating Decision Maker ("CODM"), is as follows (in millions):

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Net sales:				
Americas	\$ 7,136	\$ 6,552	\$ 14,159	\$ 13,140
EMEA	3,093	3,250	5,934	6,095
APJC	1,869	1,725	3,881	3,548
Total	\$ 12,098	\$ 11,527	\$ 23,974	\$ 22,783
Gross margin:				
Americas	4,413	4,106	8,881	8,266
EMEA	2,008	2,095	3,806	3,849
APJC	1,121	992	2,297	2,100
Segment total	7,542	7,193	14,984	14,215
Unallocated corporate items	(199)	(128)	(402)	(260)
Total	\$ 7,343	\$ 7,065	\$ 14,582	\$ 13,955

Net sales in the United States, which is included in the Americas, were \$6.1 billion and \$5.6 billion for the three months ended January 26, 2013 and January 28, 2012, respectively, and were \$12.2 billion and \$11.2 billion for the six months ended January 26, 2013 and January 28, 2012, respectively.

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

The Company designs, manufactures, and sells Internet Protocol ("IP")-based networking and other products related to the communications and IT industry and provides services associated with these products and their use. The Company groups its products and technologies into the following categories: Switching, NGN Routing, Service Provider Video, Collaboration, Data Center, Wireless, Security, and Other Products. These products, primarily integrated by Cisco IOS Software, link geographically dispersed local-area networks ("LANs"), metropolitan-area networks ("MANs"), and wide-area networks ("WANs"). The Company has made certain reclassifications to the prior period amounts to conform to the current period's presentation.

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Net sales:</b>				
Switching	\$ 3,724	\$ 3,621	\$ 7,340	\$ 7,308
NGN Routing	1,946	2,068	3,998	4,162
Service Provider Video	1,220	1,014	2,368	1,897
Collaboration	945	1,060	1,965	2,168
Data Center	548	333	965	592
Wireless	520	409	1,006	762
Security	336	333	674	652
Other	198	280	418	529
Product	9,437	9,118	18,734	18,070
Service	2,661	2,409	5,240	4,713
Total	\$ 12,098	\$ 11,527	\$ 23,974	\$ 22,783

**(c) Additional Segment Information**

The majority of the Company's assets, excluding cash and cash equivalents and investments, as of January 26, 2013 and July 28, 2012 were attributable to its U.S. operations. The Company's total cash and cash equivalents and investments held by various foreign subsidiaries were \$39.4 billion and \$42.5 billion as of January 26, 2013 and July 28, 2012, respectively, and the remaining \$7.0 billion and \$6.2 billion at the respective period ends was available in the United States.

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

	January 26, 2013	July 28, 2012
<b>Property and equipment, net:</b>		
United States	\$ 2,808	\$ 2,842
International	595	560
Total	\$ 3,403	\$ 3,402

**CISCO SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**17. Net Income per Share**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Net income	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
Weighted-average shares - basic	5,318	5,368	5,310	5,381
Effect of dilutive potential common shares	39	33	34	23
Weighted-average shares - diluted	5,357	5,401	5,344	5,404
Net income per share - basic	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
Net income per share - diluted	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
Antidilutive employee share-based awards, excluded	324	532	519	692

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

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

### Forward-Looking Statements

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "endeavors," "strives," "may," 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 "Part II, Item 1A. Risk Factors," and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

### Overview

We design, manufacture, and sell Internet Protocol ("IP") based networking and other products related to the communications and information technology ("IT") 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. Our products are designed to transform how people connect, communicate, and collaborate. Our products are utilized at enterprise businesses, public institutions, telecommunications companies and other service providers, commercial businesses, and personal residences.

A summary of our results is as follows (in millions, except percentages and per-share amounts):

	Three Months Ended			Six Months Ended		
	January 26, 2013	January 28, 2012	Variance	January 26, 2013	January 28, 2012	Variance
Net sales	\$ 12,098	\$ 11,527	5.0 %	\$ 23,974	\$ 22,783	5.2 %
Gross margin percentage	60.7 %	61.3%	(0.6) pts	60.8%	61.3%	(0.5) pts
Research and development	\$ 1,452	\$ 1,339	8.4 %	\$ 2,883	\$ 2,714	6.2 %
Sales and marketing	\$ 2,387	\$ 2,395	(0.3)%	\$ 4,803	\$ 4,847	(0.9)%
General and administrative	\$ 584	\$ 497	17.5 %	\$ 1,144	\$ 1,049	9.1 %
Total R&D, sales and marketing, general and administrative	\$ 4,423	\$ 4,231	4.5 %	\$ 8,830	\$ 8,610	2.6 %
Total as a percentage of revenue	36.6 %	36.7%	(0.1) pts	36.8%	37.8%	(1.0) pts
Amortization of purchased intangible assets	\$ 118	\$ 97	21.6 %	\$ 240	\$ 196	22.4 %
Restructuring and other charges	\$ 13	\$ 3	333.3 %	\$ 72	\$ 205	(64.9)%
Operating income as a percentage of revenue	23.1 %	23.7%	(0.6) pts	22.7%	21.7%	1.0 pts
Income tax percentage	(13.1)%	20.6%	(33.7) pts	3.3%	20.7%	(17.4) pts
Net income	\$ 3,143	\$ 2,182	44.0 %	\$ 5,235	\$ 3,959	32.2 %
Net income as a percentage of revenue	26.0 %	18.9%	7.1 pts	21.8%	17.4%	4.4 pts
Earnings per share-diluted	\$ 0.59	\$ 0.40	47.5 %	\$ 0.98	\$ 0.73	34.2 %



### Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

For the second fiscal quarter of fiscal 2013, diluted earnings per share increased by 48% from the prior year period, a result of both a 44% increase in net income and a decline in our diluted share count by 44 million shares. Approximately 96% of the increase in net income was due to our recognition of total tax benefits of \$926 million, based primarily on the IRS completing its audit of our federal income tax returns for fiscal 2002 through fiscal 2007 and the reinstatement of the U.S. federal R&D tax credit.

We continued to execute on our plan to deliver profitable growth over the long term by maintaining our focus on operational excellence and portfolio management. Net sales increased 5% with net product sales increasing 3% and service revenue increasing 10%. The net product sales increase was in large part due to our acquisition of NDS, which was completed at the beginning of fiscal 2013. Operating income as a percentage of revenue decreased by 0.6 percentage points, primarily as a result of a lower gross margin percentage. Contributing to the lower gross margin percentage was higher amortization of purchased intangible assets resulting from recent acquisitions.

For the second quarter of fiscal 2013, as compared with the prior year period, revenue increased by \$0.6 billion. The Americas contributed \$0.6 billion of the increase led by a sales increase of 9% in the United States. APJC contributed \$0.1 billion to the revenue increase led by strong sales growth in India. We continued to experience weakness in the European economy, and we expect that this could continue in the future. Revenue in our EMEA segment declined by \$0.2 billion, with revenue declines in France, Germany, and the United Kingdom being only partially offset by solid revenue growth in Russia and certain other countries in the segment.

For the second quarter of fiscal 2013, as compared with the prior year period, net product sales and service revenue each increased by \$0.3 billion. The product sales increase was driven by the following: an increase of \$0.2 billion from Service Provider Video driven by the acquisition of NDS at the beginning of fiscal 2013; an increase of \$0.2 billion from Data Center products, due to continued strong customer demand; an increase of \$0.1 billion from Wireless products, due to continued demand for these solutions, and an increase of \$0.1 billion from our Switching Products. These sales increases, along with the service revenue contribution, reflect, in our view, the success we are experiencing with our technology architectures and our ability to deliver customer solutions, particularly in the enterprise and service provider data center and cloud environments.

The continuing weakness we experienced in the second quarter in the EMEA segment and with regard to global public sector spending, especially in the United States, contributed to a net product sales decrease of \$0.1 billion in our Collaboration product category. We also experienced a decrease of \$0.1 billion in our NGN Routing product category, driven by sales declines in APJC, in particular China, and EMEA. In addition, sales in our Other product category decreased by \$0.1 billion due in large part to lower sales of Linksys home networking products and lower sales of other networking products.

In summary, during the second quarter of fiscal 2013, we continued to execute on our plan to deliver profitable growth over the long term. We did so as we continued to experience the global macroeconomic challenges we faced in recent quarters including, in particular, weakness in the European economy, lower global public sector spending, and a conservative approach to IT-related capital spending by our other customers.

### Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

Diluted earnings per share increased by 34% from the prior year, a result of both a 32% increase in net income and a decline by our diluted share count of 60 million shares. A significant portion of the favorable increase in net income was attributable to the tax benefits recognized in the second quarter of fiscal 2013 discussed above. Net sales increased 5%, with net product sales increasing 4% and service revenue increasing 11%. The increase in net product sales was due in large part to our acquisition of NDS. We achieved net sales increases in our Americas and APJC geographic segments while net sales in our EMEA geographic segment declined. Total gross margin decreased by 0.5 percentage points. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses collectively declined by 1.0 percentage point primarily due to lower sales and marketing expenses. Operating income as a percentage of revenue increased by 1.0 percentage point, primarily as a result of lower restructuring charges and effective expense management.

### **Strategy and Focus Areas**

Our focus continues to be on our five foundational priorities:

- Leadership in our core business (routing, switching, and associated services), which includes comprehensive security and mobility solutions
- Collaboration
- Data center virtualization and cloud
- Video
- Architectures for business transformation

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

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

We continue to seek to capitalize on market transitions. Market transitions relating to the network are becoming, in our view, more significant as intelligent networks have moved from being a mere cost center issue—that is, where the focus is on reducing network operating costs and increasing network-related productivity—to becoming, additionally and increasingly, a platform for improved revenue generation as well as driving business agility and strategy execution.

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

- **Virtualization:** Refers to the process of creating a virtual, or nonphysical, version of a device or resource, such as a server, storage device, network or an operating system, in such a way that human users as well as other devices and resources are able to interact with the virtual resource as if it were an actual physical resource. For example, one type of virtualization is server or data center virtualization, which consists of aggregating the current siloed data center resources into unified, shared resource pools that can be dynamically delivered to applications on demand, thus enabling the ability to move content and applications between devices and the network.
- **The cloud:** Refers to an information technology hosting and delivery system in which resources, such as servers or software applications, are no longer tethered to a user's physical infrastructure but instead are delivered to and consumed by the user “on demand” as an Internet-based service, whether singularly or with multiple other users simultaneously.

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

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

We believe that the architectural approach that we have undertaken in the enterprise data center market is adaptable to other markets. An example of a market where we aim to apply this approach is mobility, where growth of IP traffic on handheld devices is driving the need for more robust architectures, equipment and services in order to accommodate not only an increasing number of worldwide mobile device users, but also increased user demand for broadband-quality business network and consumer web applications to be delivered on such devices. A key term in this mobility-centered market transition is “BYOD,” an acronym for “bring your own device,” which in the context of IT usage in companies, universities, and other organizations refers to the growing trend of employees, customers, students, and others associated with such entities to bring



and use their own laptop computers, smartphones, tablets or other mobile devices for their work or participation, instead of using equipment provided by the organization.

With regard to this market transition, to help such organizations meet the demands of increasing BYOD usage, our product development strategy involves a comprehensive architectural approach that will allow for, among other things, a unified security policy across the whole organization; a simplified operations and network management structure that understands application performance from a user's perspective, enhances troubleshooting capability and lowers network operating costs; and an uncompromised user experience over the organization's entire wireless and wired network that embraces use of any kind of device. Our mobility-related products and solutions reflect this architectural-based approach.

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

Another market transition on which we are focusing is the move toward more programmable, flexible, and virtual networks. This move to network programmability encompasses technologies such as software-defined networking and is focused on moving from a hardware-centric approach for networking to a virtualized network environment that is designed to enable flexible, application-driven customization of network infrastructures. We believe the successful products and solutions in this market will combine application-specific-integrated-circuits ("ASICs") with hardware and software elements together to meet customers' total cost of ownership, quality, security, scalability and experience requirements. In our view, there is no single architecture that supports all customer requirements in this area. Our strategy is targeted to address a broad range of specific customer use cases.

Recently, we announced an additional set of network programmability capabilities with the announcement of the Cisco Open Network Environment, or Cisco ONE, including overlay network technology, application programming interfaces ("APIs"), and network-operation tools called agents and controllers. In our view, this evolution is in its very early stages and presents an opportunity for Cisco. We intend to continue to drive internal innovation, partner for co-development, and make strategic investments to lead this evolution.

#### Other Key Financial Measures

The following is a summary of our other key financial measures for the second quarter and first six months of fiscal 2013 (in millions, except days sales outstanding in accounts receivable ("DSO") and annualized inventory turns):

	January 26, 2013	July 28, 2012
Cash and cash equivalents and investments	\$46,376	\$48,716
Deferred revenue	\$13,321	\$12,880
DSO	34 days	34 days
Inventories	\$1,574	\$1,663
Annualized inventory turns	11.6	11.7
	Six Months Ended	
	January 26, 2013	January 28, 2012
Cash provided by operating activities	\$5,814	\$5,434
Repurchases of common stock - stock repurchase program	\$753	\$2,010
Dividends	\$1,487	\$644

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended July 28, 2012, as updated as applicable in Note 2 to the Consolidated Financial Statements herein, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on these policies.

### Revenue Recognition

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

- *Persuasive evidence of an arrangement exists.* Contracts, Internet commerce agreements, and customer purchase orders are generally used to determine the existence of an arrangement.
- *Delivery has occurred.* Shipping documents and customer acceptance, when applicable, are used to verify delivery.
- *The fee is fixed or determinable.* We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- *Collectibility is reasonably assured.* We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. When a sale involves multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine the unit of accounting, and the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price. Revenue is recognized when the revenue recognition criteria for each unit of accounting are met.

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

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

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

Revenue deferrals relate to the timing of revenue recognition for specific transactions based on financing arrangements, service, support, and other factors. Financing arrangements may include sales-type, direct-financing, and operating leases, loans, and guarantees of third-party financing. Our deferred revenue for products was \$4.3 billion and \$3.7 billion as of January 26, 2013 and July 28, 2012, respectively. Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which typically is from one to three years. Advanced services revenue is recognized upon delivery or completion of performance. Our deferred revenue for services was \$9.1 billion and \$9.2 billion as of January 26, 2013 and July 28, 2012, respectively.



We make sales to distributors and retail partners, which we refer to as two-tier systems 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. Our distributors and retail partners participate in various cooperative marketing and other programs, and we maintain estimated accruals and allowances for these programs. If actual credits received by our distributors and retail partners under these programs were to deviate significantly from our estimates, which are based on historical experience, our revenue could be adversely affected.

#### Allowances for Receivables and Sales Returns

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

	January 26, 2013	July 28, 2012
Allowance for doubtful accounts	\$ 218	\$ 207
<i>Percentage of gross accounts receivable</i>	4.7%	4.5%
Allowance for credit loss - lease receivables	\$ 247	\$ 247
<i>Percentage of gross lease receivables</i>	6.6%	7.2%
Allowance for credit loss - loan receivables	\$ 101	\$ 122
<i>Percentage of gross loan receivables</i>	5.7%	6.8%

The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality, and age of the receivable balances as well as external factors such as economic conditions that may affect a customer's ability to pay and expected default frequency rates, which are published by major third-party credit-rating agencies and are generally updated on a quarterly basis. We also consider the concentration of receivables outstanding with a particular customer in assessing the adequacy of our allowances for doubtful accounts. If a major customer's creditworthiness deteriorates, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our revenue.

The allowance for credit loss on financing receivables is also based on the assessment of collectibility of customer accounts. We regularly review the adequacy of the credit allowances determined either on an individual or a collective basis. When evaluating the financing receivables on an individual basis, we consider historical experience, credit quality and age of receivable balances, and economic conditions that may affect a customer's ability to pay. When evaluating the financing receivables on a collective basis, we use expected default frequency rates published by a major third-party credit-rating agency as well as our own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk and correlation. Determination of expected default frequency rates and loss factors associated with internal credit risk ratings as well as assessing economic conditions, concentration of risk, and correlation are complex and subjective. Our ongoing consideration of all these factors could result in an increase in our allowance for credit loss in the future, which could adversely affect our revenue. Both accounts receivable and financing receivables are charged off at the point when they are considered uncollectible.

A reserve for future sales returns is established based on historical trends in product return rates. The reserve for future sales returns as of both January 26, 2013 and July 28, 2012 was \$129 million and was recorded as a reduction of our accounts receivable. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

#### Inventory Valuation and Liability for Purchase Commitments with Contract Manufacturers and Suppliers

Our inventory balance was \$1.6 billion and \$1.7 billion as of January 26, 2013 and July 28, 2012, respectively. Inventory is written down based on excess and obsolete inventories determined primarily by future demand forecasts. Inventory write-downs are measured as the difference between the cost of the inventory and market, based upon assumptions about future demand, and are charged to the provision for inventory, which is a component of our cost of sales. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

We record a liability for firm, noncancelable, and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of January 26, 2013, the liability for these purchase commitments was \$169 million, compared with \$193 million as of July 28, 2012, and was included in other current liabilities. Our provision for inventory was \$63 million and \$53 million for the first six months of fiscal 2013 and 2012, respectively. The provision for the liability related to purchase commitments with contract manufacturers and suppliers was \$40 million and \$51 million for the first six months of fiscal 2013 and 2012, respectively.





If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory write-downs, and our liability for purchase commitments with contract manufacturers and suppliers, and accordingly our profitability, could be adversely affected. We regularly evaluate our exposure for inventory write-downs and the adequacy of our liability for purchase commitments. Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility to help ensure competitive lead times with the risk of inventory obsolescence, particularly in light of current macroeconomic uncertainties and conditions and the resulting potential for changes in future demand forecast.

### Warranty Costs

The liability for product warranties, included in other current liabilities, was \$424 million as of January 26, 2013, compared with \$415 million as of July 28, 2012. See Note 12 to the Consolidated Financial Statements. Our products are generally covered by a warranty for periods ranging from 90 days to five years, and for some products we provide a limited lifetime warranty. We accrue for warranty costs as part of our cost of sales based on associated material costs, technical support labor costs, and associated overhead. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is estimated based primarily upon historical trends in the rate of customer cases and the cost to support the customer cases within the warranty period. Overhead cost is applied based on estimated time to support warranty activities.

The provision for product warranties issued during the first six months of fiscal 2013 and 2012 was \$319 million and \$331 million, respectively. The decrease in the provision for warranties occurred principally due to a warranty charge incurred on a specific product during the second quarter of fiscal 2012. If we experience an increase in warranty claims compared with our historical experience, or if the cost of servicing warranty claims is greater than expected, our profitability could be adversely affected.

### Share-Based Compensation Expense

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

	Six Months Ended		
	January 26, 2013	January 28, 2012	Variance
Share-based compensation expense	\$ 608	\$ 695	\$ (87)

Restricted stock units are valued using the market value of our common stock on the date of grant, discounted for the present value of expected dividends. Restricted stock unit awards with market-based conditions are valued using a Monte Carlo simulation. See Note 14 to the Consolidated Financial Statements.

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

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

### Fair Value Measurements

Our fixed income and publicly traded equity securities, collectively, are reflected in the Consolidated Balance Sheets at a fair value of \$39.5 billion as of January 26, 2013, compared with \$38.9 billion as of July 28, 2012. Our fixed income investment portfolio, as of January 26, 2013, consisted primarily of high-quality investment-grade securities. See Note 8 to the Consolidated Financial Statements.

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

Our Level 2 securities are valued using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. We use inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from independent pricing vendors, quoted market prices, or other sources to determine the ultimate fair value of our assets and liabilities. We use such pricing data as the primary input, to which we have not made any material adjustments during fiscal 2013 and fiscal 2012, to make our assessments and determinations as to the ultimate valuation of our investment portfolio. We are ultimately responsible for the financial statements and underlying estimates.

The inputs and fair value are reviewed for reasonableness, may be further validated by comparison to publicly available information, and could be adjusted based on market indices or other information that management deems material to its estimate of fair value. The assessment of fair value can be difficult and subjective. However, given the relative reliability of the inputs we use to value our investment portfolio, and because substantially all of our valuation inputs are obtained using quoted market prices for similar or identical assets, we do not believe that the nature of estimates and assumptions affected by levels of subjectivity and judgment was material to the valuation of the investment portfolio as of January 26, 2013. We had no Level 3 investments in our total portfolio as of January 26, 2013.

#### **Other-than-Temporary Impairments**

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

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

For publicly traded equity securities, we consider various factors in determining whether we should recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

There were no impairment charges on our investments in publicly traded equity securities and fixed income securities in the first six months of fiscal 2013 and fiscal 2012. Our ongoing consideration of all the factors described previously could result in additional impairment charges in the future, which could adversely affect our net income.

We also have investments in privately held companies, some of which are in the startup or development stages. As of January 26, 2013, our investments in privately held companies were \$869 million, compared with \$858 million as of July 28, 2012, and were included in other assets. See Note 6 to the Consolidated Financial Statements. We monitor these investments for events or circumstances indicative of potential impairment, and we will make appropriate reductions in carrying values if we determine that an impairment charge is required, based primarily on the financial condition and near-term prospects of these companies. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Our impairment charges on investments in privately held companies were \$18 million and \$2 million for the first six months of fiscal 2013 and 2012, respectively.

## Goodwill and Purchased Intangible Asset Impairments

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

The goodwill recorded in the Consolidated Balance Sheets as of January 26, 2013 and July 28, 2012 was \$21.4 billion and \$17.0 billion, respectively. The increase in goodwill for the first six months of fiscal 2013 was due in large part to our acquisitions of NDS and Meraki Inc. ("Meraki"). In response to changes in industry and market conditions, we could be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. There was no impairment of goodwill in the first six months of fiscal 2013 and 2012.

We make judgments about the recoverability of purchased intangible assets with finite lives whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of purchased intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts. There were no impairment charges related to purchased intangible assets for the first six months of fiscal 2013 and 2012. Our ongoing consideration of all the factors described previously could result in additional impairment charges in the future, which could adversely affect our net income.

## Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rates differ from the statutory rate, primarily due to the tax impact of state taxes, foreign operations, research and development ("R&D") tax credits, tax audit settlements, nondeductible compensation, international realignments, and transfer pricing adjustments. Our effective tax rate was (13.1%) and 20.6% in the second quarter of fiscal 2013 and 2012, respectively. Our effective tax rate was 3.3% and 20.7% for the first six months of fiscal 2013 and 2012, respectively.

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

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

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by expiration of or lapses in tax incentives; by transfer pricing adjustments, including the effect of acquisitions on our intercompany R&D cost-sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital.



Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates and in some cases is wholly exempt from tax. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

### **Loss Contingencies**

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

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

## RESULTS OF OPERATIONS

### Net Sales

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

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
Net sales:								
Product	\$ 9,437	\$ 9,118	\$ 319	3.5%	\$ 18,734	\$ 18,070	\$ 664	3.7%
<i>Percentage of net sales</i>	<i>78.0%</i>	<i>79.1%</i>			<i>78.1%</i>	<i>79.3%</i>		
Service	2,661	2,409	252	10.5%	5,240	4,713	527	11.2%
<i>Percentage of net sales</i>	<i>22.0%</i>	<i>20.9%</i>			<i>21.9%</i>	<i>20.7%</i>		
Total	<u>\$ 12,098</u>	<u>\$ 11,527</u>	<u>\$ 571</u>	5.0%	<u>\$ 23,974</u>	<u>\$ 22,783</u>	<u>\$ 1,191</u>	5.2%

We manage our business primarily on a geographic basis, organized into three geographic segments. Our net sales, which include product and service revenue for each segment, are summarized in the following table (in millions, except percentages):

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
Net sales:								
Americas	\$ 7,136	\$ 6,552	\$ 584	8.9 %	\$ 14,159	\$ 13,140	\$ 1,019	7.8 %
<i>Percentage of net sales</i>	<i>59.0%</i>	<i>56.8%</i>			<i>59.0%</i>	<i>57.7%</i>		
EMEA	3,093	3,250	(157)	(4.8)%	5,934	6,095	(161)	(2.6)%
<i>Percentage of net sales</i>	<i>25.6%</i>	<i>28.2%</i>			<i>24.8%</i>	<i>26.7%</i>		
APJC	1,869	1,725	144	8.3 %	3,881	3,548	333	9.4 %
<i>Percentage of net sales</i>	<i>15.4%</i>	<i>15.0%</i>			<i>16.2%</i>	<i>15.6%</i>		
Total	<u>\$ 12,098</u>	<u>\$ 11,527</u>	<u>\$ 571</u>	5.0 %	<u>\$ 23,974</u>	<u>\$ 22,783</u>	<u>\$ 1,191</u>	5.2 %

#### Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

For the second quarter of fiscal 2013, as compared with the second quarter of fiscal 2012, net sales increased by 5%. Net product sales increased by 3%, while service revenue increased by 10%. The increase in net product sales reflected growth in our Americas and APJC geographic segments, while net product sales declined in the EMEA segment. Service revenues increased across all of our geographic segments.

#### Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

For the first six months of fiscal 2013, as compared with the first six months of fiscal 2012, net sales increased by 5%. Net product sales increased by 4%, while service revenue increased by 11%. The increase in net product sales reflected growth in our Americas and APJC geographic segments, while net product sales declined in the EMEA segment. Service revenues increased across all of our geographic segments.

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

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

## Net Product Sales by Segment

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

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
Net product sales:								
Americas	\$ 5,389	\$ 4,973	\$ 416	8.4 %	\$ 10,703	\$ 10,030	\$ 673	6.7 %
<i>Percentage of net product sales</i>	<i>57.1%</i>	<i>54.6%</i>			<i>57.2%</i>	<i>55.5%</i>		
EMEA	2,547	2,748	(201)	(7.3)%	4,879	5,119	(240)	(4.7)%
<i>Percentage of net product sales</i>	<i>27.0%</i>	<i>30.1%</i>			<i>26.0%</i>	<i>28.3%</i>		
APJC	1,501	1,397	104	7.4 %	3,152	2,921	231	7.9 %
<i>Percentage of net product sales</i>	<i>15.9%</i>	<i>15.3%</i>			<i>16.8%</i>	<i>16.2%</i>		
Total	<u>\$ 9,437</u>	<u>\$ 9,118</u>	<u>\$ 319</u>	3.5 %	<u>\$ 18,734</u>	<u>\$ 18,070</u>	<u>\$ 664</u>	3.7 %

### Americas

#### Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

The increase in net product sales in the Americas segment was led by growth in the commercial, enterprise and service provider markets. The growth in net product sales to the service provider market was in large part due to our acquisition of NDS at the beginning of fiscal 2013. We continued to experience a decline in net product sales in the public sector market for the second quarter of fiscal 2013, which was driven primarily by lower net product sales to the U.S. federal government only partially offset by higher net product sales to state and local governments. From a country perspective, net product sales increased by 9% in the United States, 27% in Mexico, and 5% in Brazil. Net product sales in Canada were flat compared with the corresponding period of fiscal 2012.

#### Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

The increase in net product sales in the Americas segment was led by growth in the service provider, commercial and enterprise markets. The growth in net product sales to the service provider market was due in part to our acquisition of NDS at the beginning of fiscal 2013. We experienced a decline in net product sales to the public sector market for the first six months of fiscal 2013 as lower net product sales to the U.S. federal government were only partially offset by higher net product sales to state and local governments. From a country perspective, net product sales increased by 9% in the United States, 8% in Mexico and 5% in Brazil. These increases were partially offset by a net product sales decline of 9% in Canada.

### EMEA

#### Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

Net product sales in the EMEA segment decreased by 7% as weakness from macroeconomic challenges in Europe continued to impact our business in this segment. The decline was led by the enterprise market, followed by lesser declines in the public sector and commercial markets. Net product sales to our service provider market were flat and include net product sales from our acquisition of NDS. From a country perspective, net product sales decreased by 7% in the Netherlands, 9% in the United Kingdom, 8% in both Germany and France, and 29% in Italy. Partially offsetting these declines was an 8% increase in net product sales to Russia.





*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

The decrease in net product sales occurred across all our customer markets in the EMEA segment, led by declines in the enterprise and public sector markets, followed by smaller declines in the service provider and commercial markets. From a country perspective, net product sales decreased by 20% in the Netherlands, 7% in the United Kingdom, 8% in both Germany and France, and 26% in Italy. Partially offsetting these product sales declines was a 17% increase in net product sales in Russia.

APJC

*Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

The increase in the APJC segment was led by solid net product sales growth in the commercial market and, to a lesser degree, in the service provider and public sector markets. The growth in the service provider market was due to our acquisition of NDS. Net product sales were flat in the enterprise market in the APJC segment. From a country perspective, net product sales increased by 46% in India, 11% in China, and 4% in Australia, partially offset by a net product sales decline of 14% in Japan.

*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

The increase in the APJC segment was led by strong net product sales growth in the public sector, service provider and commercial markets and, to a lesser degree, in the enterprise market. The growth in the service provider market was in large part due to our acquisition of NDS. From a country perspective, net product sales increased by 41% in India, 1% in China, and 18% in Australia, partially offset by a net product sales decline of 2% in Japan.

## Net Product Sales by Groups of Similar Products

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

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

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
Net product sales:								
Switching	\$ 3,724	\$ 3,621	\$ 103	2.8 %	\$ 7,340	\$ 7,308	\$ 32	0.4 %
<i>Percentage of net product sales</i>	<i>39.5%</i>	<i>39.7%</i>			<i>39.2%</i>	<i>40.5%</i>		
NGN Routing	1,946	2,068	(122)	(5.9)%	3,998	4,162	(164)	(3.9)%
<i>Percentage of net product sales</i>	<i>20.6%</i>	<i>22.7%</i>			<i>21.3%</i>	<i>23.0%</i>		
Service Provider Video	1,220	1,014	206	20.3 %	2,368	1,897	471	24.8 %
<i>Percentage of net product sales</i>	<i>12.9%</i>	<i>11.1%</i>			<i>12.6%</i>	<i>10.5%</i>		
Collaboration	945	1,060	(115)	(10.8)%	1,965	2,168	(203)	(9.4)%
<i>Percentage of net product sales</i>	<i>10.0%</i>	<i>11.5%</i>			<i>10.5%</i>	<i>12.0%</i>		
Data Center	548	333	215	64.6 %	965	592	373	63.0 %
<i>Percentage of net product sales</i>	<i>5.8%</i>	<i>3.7%</i>			<i>5.2%</i>	<i>3.3%</i>		
Wireless	520	409	111	27.1 %	1,006	762	244	32.0 %
<i>Percentage of net product sales</i>	<i>5.5%</i>	<i>4.5%</i>			<i>5.4%</i>	<i>4.2%</i>		
Security	336	333	3	0.9 %	674	652	22	3.4 %
<i>Percentage of net product sales</i>	<i>3.6%</i>	<i>3.7%</i>			<i>3.6%</i>	<i>3.6%</i>		
Other	198	280	(82)	(29.3)%	418	529	(111)	(21.0)%
<i>Percentage of net product sales</i>	<i>2.1%</i>	<i>3.1%</i>			<i>2.2%</i>	<i>2.9%</i>		
<b>Total</b>	<b>\$ 9,437</b>	<b>\$ 9,118</b>	<b>\$ 319</b>	<b>3.5 %</b>	<b>\$ 18,734</b>	<b>\$ 18,070</b>	<b>\$ 664</b>	<b>3.7 %</b>

Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

### Switching

#### *Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

Our Switching product category consists of switching and storage products. Sales of LAN fixed-configuration switches increased by 6%, or \$124 million. The increase in sales of LAN fixed-configuration switches was primarily due to higher sales of Cisco Nexus 5000 Series Switches, Cisco Catalyst 3000, 3750 and 4000 Series Switches, and fixed switching optics modules. Sales of modular switches increased \$11 million, or 1%, with higher sales of Cisco Nexus 7000 Series Switches, optics modules, and Cisco Catalyst 4500 Series Switches being partially offset by lower sales of Cisco Catalyst 6500 Series Switches. Net product sales in our Switching product category were negatively impacted by a 22% decrease in sales of storage products.

*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

Sales of LAN fixed-configuration switches increased by 2%, or \$82 million. The increase in sales of LAN fixed-configuration switches was primarily due to higher sales of Cisco Nexus 5000 Series Switches and fixed switching optics modules, partially offset by sales declines in several of our Cisco Catalyst product families. Sales of modular switches increased \$16 million, or 1%, with higher sales of Cisco Nexus 7000 Series Switches, optics modules, and Cisco Catalyst 4500 Series Switches, being partially offset by lower sales of Cisco Catalyst 6500 Series Switches. Net product sales in our Switching product category were negatively impacted by a 22% decrease in sales of storage products.

NGN Routing

*Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

We experienced a decrease of \$122 million in our NGN Routing product category, driven by sales declines in APJC, in particular China, and EMEA. From a subcategory perspective, the decrease in sales of our NGN Routing product category was driven by a 6%, or \$67 million, decrease in sales of high-end router products and a 9%, or \$62 million, collective decrease in sales of our mid-range and low-end router products. Within the high-end router products category, we experienced lower sales of our Cisco CRS-3 Carrier Routing System products, and of our legacy high-end router products. These decreases were partially offset by sales growth in Cisco ASR 9000 and 5000 products as we continue to experience product transitions in our high-end product category. We experienced a slight increase in sales of other NGN Routing products due to increased sales of optical networking products, partially offset by lower sales of other routing products.

*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

The decrease in sales of our NGN Routing product category was driven by a 4%, or \$89 million, decrease in sales of high-end router products; a 13%, or \$50 million, decrease in sales of other NGN Routing products; and a 2%, or \$25 million, decrease in sales of our mid-range and low-end router products. Within the high-end router products category, we experienced lower sales of our Cisco CRS-3 Carrier Routing System products, and of our legacy high-end router products. These decreases were partially offset by sales growth in Cisco ASR 9000 and 5000 products. The decline in sales of other NGN Routing products was due to decreased sales of other routing and optical networking products.

Service Provider Video

*Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

Our Service Provider Video product category consists of the following two major subcategories of products: customer premises equipment and video software and systems. The increase in sales of Service Provider Video products was due to the acquisition of NDS at the beginning of fiscal 2013. Within the two subcategories, sales within the video software and systems subcategory, which includes the NDS products, increased by 55%, or \$184 million, while sales of customer premises equipment products increased by 3%, or \$22 million. The increase in sales of customer premises equipment products was due primarily to increased sales of cable set-top boxes.

*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

The increase in sales of Service Provider Video products was in large part due to the acquisition of NDS at the beginning of fiscal 2013, which contributed a substantial majority of the total sales increase. Within the two subcategories, sales within the video software and systems subcategory, which includes the NDS products, increased by 56%, or \$351 million, while sales of customer premises equipment products increased by 10%, or \$120 million. The increase in sales of customer premises equipment products was due primarily to increased sales of cable set-top boxes.

Collaboration

*Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

Our Collaboration product category consists of unified communications products (IP phones, call center and messaging solutions, infrastructure products, and web-based collaborative offerings) and Cisco TelePresence Systems. Sales of Collaboration products decreased primarily due to a decline in sales of Cisco TelePresence Systems. Lower public sector spending in the United States and demand weakness in Europe were the largest drivers of the decrease in sales of Cisco TelePresence Systems. We also experienced a slight decline in unified communications product sales. The decline in unified communications sales was due primarily to lower sales of infrastructure products, partially offset by higher sales of collaborative web-based offerings.

Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

The sales decrease in our Collaboration product category was primarily due to a decline in sales of Cisco TelePresence Systems along with a slight decline in sales of unified communications products. The decline in sales of Cisco TelePresence Systems was due to similar factors as those affecting the three month period discussed in the paragraph immediately above. The slight decline in unified communications sales was due primarily to lower sales of unified communications infrastructure products and lower sales of collaborative web-based offerings.

Data Center

Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

Sales of Data Center products increased significantly due to increased sales of Cisco Unified Computing System products. The increase was due in large part to the momentum we are experiencing with our products for the commercial, enterprise, and service provider data center and cloud environments, as current customers increase their data center build-outs, and as new customers purchase products.

To the extent our Data Center business grows and further penetrates the market, we expect that, in comparison to what we have experienced during the initial rapid growth of this business, the growth rates for our Data Center product sales will experience more normal seasonality consistent with the overall server market.

Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

Sales of Data Center products increased significantly due to increased sales of Cisco Unified Computing System products. The increase was due in large part to similar factors as those affecting the three month period discussed immediately above.

Wireless, Security, and Other

Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

Sales of Wireless products increased 27%, or \$111 million, primarily reflecting the continued customer adoption of and migration to the Cisco Unified Wireless Network architecture, and also reflecting increased sales of new products in this category. Sales of our Security products were up slightly, as sales of our content security and network security subcategories each increased slightly. We experienced a decrease in sales of Other Products due in large part to lower sales of Linksys home networking products and lower sales of other networking products. In the second quarter of fiscal 2013, we agreed to sell our Linksys product line to a third party, which transaction is expected to close during the third quarter of fiscal 2013.

Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

Sales of Wireless products increased 32%, or \$244 million, due to similar factors as those affecting the three month period discussed above. Sales of security products increased slightly and were driven in part by the relatively recent update of our firewall security product portfolio. We experienced a decrease in sales of Other Products due in large part to lower sales of Linksys home networking products and lower sales of other networking products.

## Net Service Sales by Segment

The following table presents the breakdown of service revenue by segment (in millions, except percentages):

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
<b>Net service sales:</b>								
Americas	\$ 1,747	\$ 1,579	\$ 168	10.6%	\$ 3,456	\$ 3,110	\$ 346	11.1%
<i>Percentage of net service sales</i>	<i>65.7%</i>	<i>65.6%</i>			<i>66.0%</i>	<i>66.0%</i>		
EMEA	546	502	44	8.8%	1,055	976	79	8.1%
<i>Percentage of net service sales</i>	<i>20.5%</i>	<i>20.8%</i>			<i>20.1%</i>	<i>20.7%</i>		
APJC	368	328	40	12.2%	729	627	102	16.3%
<i>Percentage of net service sales</i>	<i>13.8%</i>	<i>13.6%</i>			<i>13.9%</i>	<i>13.3%</i>		
Total	<u>\$ 2,661</u>	<u>\$ 2,409</u>	<u>\$ 252</u>	10.5%	<u>\$ 5,240</u>	<u>\$ 4,713</u>	<u>\$ 527</u>	11.2%

### *Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

Service revenue experienced solid growth across all of our geographic segments for the second quarter. Worldwide technical support services revenue increased by 7%, and worldwide advanced services, which relate to consulting support services for specific network needs, experienced 20% revenue growth. Technical support services revenue grew across all of our geographic segments, with the Americas and APJC growing faster than the worldwide average, and EMEA growing slower than the worldwide average. Renewals and technical support service contract initiations associated with product sales provided an installed base of equipment being serviced which, in concert with new service offerings, were the primary factors driving these sales increases. Advanced services revenue had solid growth across all geographic segments. Advanced services revenue growth was driven by strong growth in both transaction and subscription revenues.

### *Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

Service revenue experienced solid growth across all of our geographic segments for the period. Worldwide technical support services revenue increased by 8%, and worldwide advanced services experienced 22% revenue growth. Technical support services revenue grew across all of our geographic segments. Advanced services revenue also grew across all geographic segments, with particularly strong growth in APJC. Advanced services revenue growth was driven by strong growth in both transaction and subscription revenues.

## Gross Margin

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

	Three Months Ended				Six Months Ended			
	Amount		Percentage		Amount		Percentage	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Gross margin:</b>								
Product	\$ 5,580	\$ 5,468	59.1%	60.0%	\$ 11,129	\$ 10,857	59.4%	60.1%
Service	1,763	1,597	66.3%	66.3%	3,453	3,098	65.9%	65.7%
Total	<u>\$ 7,343</u>	<u>\$ 7,065</u>	60.7%	61.3%	<u>\$ 14,582</u>	<u>\$ 13,955</u>	60.8%	61.3%

## Product Gross Margin

The following table summarizes the key factors that contributed to the change in product gross margin percentage for the second quarter and first six months of fiscal 2013 as compared with the corresponding prior year periods:

	Product Gross Margin Percentage	
	Three Months Ended	Six Months Ended <sup>(1)</sup>
Fiscal 2012	60.0 %	60.1 %
Sales discounts, rebates, and product pricing	(2.6)%	(2.8)%
Mix of products sold	(0.4)%	(0.7)%
Amortization of purchased intangible assets	(0.5)%	(0.5)%
Acquisition fair value adjustment to inventory and other	(0.2)%	(0.2)%
Productivity <sup>(2)</sup>	2.8 %	3.5 %
Fiscal 2013	59.1 %	59.4 %

<sup>(1)</sup> During the second quarter of fiscal 2013, we refined our methodology for presenting the items in the preceding table and accordingly certain reclassifications have been made to the six months ended amounts to conform to the presentation followed for the three months-ended amounts.

<sup>(2)</sup> Productivity includes overall manufacturing-related costs, shipment volume, and other items not categorized elsewhere.

### Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012

Product gross margin decreased by 0.9 percentage points for the period. The decrease was primarily due to the impact of higher sales discounts, rebates, and unfavorable product pricing, which were driven by normal market factors and by the geographic mix of net product sales. These factors impacted most of our customer markets and all of our geographic segments. Additionally, our product gross margin for the second quarter of fiscal 2013 was negatively impacted by the shift in the mix of products sold, primarily as a result of sales increases in our relatively lower margin Service Provider Video and Cisco Unified Computing System products. Further, our recent acquisitions, in particular NDS, resulted in higher amortization expense from purchased intangible assets along with costs resulting from a fair value adjustment to inventory acquired as part of the NDS business combination, the combined effect of which was an additional negative impact to our product gross margin for the second quarter of fiscal 2013. These factors were partially offset by productivity improvements. The productivity improvements were in large part due to the following: increased benefits from our value engineering efforts, particularly in certain of our Switching and NGN Routing categories in which product transitions have been taking place; favorable component pricing; and continued operational efficiency in manufacturing operations. Value engineering is the process by which production costs are reduced through component redesign, board configuration, test processes, and transformation processes.

Our future gross margins could be impacted by our product mix and could be adversely affected by further growth in sales of products that have lower gross margins, such as Cisco Unified Computing System and Service Provider Video products. Our gross margins may also be impacted by the geographic mix of our revenue and, as was the case in fiscal 2012 and 2011, may be adversely affected by increased sales discounts, rebates, and product pricing attributable to competitive factors. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain, which in turn could negatively affect gross margin. If any of the preceding factors that in the past have negatively impacted our gross margins arise in future periods, our gross margins could continue to decline.

### Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012

Product gross margin decreased by 0.7 percentage points for the period. The decrease was primarily due to the impact of higher sales discounts, rebates, and unfavorable product pricing, which were driven by normal market factors and by the geographic mix of net product sales. These factors impacted most of our customer markets and all of our geographic segments. Additionally, our product gross margin for the first six months of fiscal 2013 was negatively impacted by the shift in the mix of products sold, primarily as a result of sales increases in our relatively lower margin Service Provider Video and Cisco Unified Computing System products. Further, as discussed above, our acquisition of NDS resulted in higher amortization expense from purchased intangible assets along with costs resulting from a fair value adjustment to inventory acquired as part of the business combination, each of which negatively impacted our product gross margin for the first six months of fiscal 2013. These factors were partially offset by productivity improvements driven by similar factors as discussed in the three month period immediately above.



## Service Gross Margin

### *Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

Our service gross margin percentage remained unchanged compared with the corresponding period in fiscal 2012. Although we experienced higher sales volume led by growth in advanced services and in technical support services, the resulting benefit to gross margin was offset by increased cost impacts such as headcount-related costs, particularly in advanced services; partner delivery costs; and unfavorable mix. The mix impacts were due to our lower gross margin advanced services business contributing a higher proportion of service revenue for the second quarter of fiscal 2013, as compared with the prior year period.

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

### *Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

Our service gross margin percentage increased by 0.2 percentage points for the period. This increase was primarily due to higher sales volume, led by growth in advanced services and in technical support services. The benefit to gross margin of increased volume was partially offset by increased cost impacts such as headcount-related costs, particularly in advanced services; partner delivery costs; and unfavorable mix. The mix impacts were due to advanced services contributing a higher proportion of service revenue for the first six months of fiscal 2013, as compared with the prior year period.

## Gross Margin by Segment

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

	Three Months Ended				Six Months Ended			
	Amount		Percentage		Amount		Percentage	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Gross margin:								
Americas	\$ 4,413	\$ 4,106	61.8%	62.7%	\$ 8,881	\$ 8,266	62.7%	62.9%
EMEA	2,008	2,095	64.9%	64.5%	3,806	3,849	64.1%	63.2%
APJC	1,121	992	60.0%	57.5%	2,297	2,100	59.2%	59.2%
Segment total	7,542	7,193	62.3%	62.4%	14,984	14,215	62.5%	62.4%
Unallocated corporate items (1)	(199)	(128)			(402)	(260)		
Total	\$ 7,343	\$ 7,065	60.7%	61.3%	\$ 14,582	\$ 13,955	60.8%	61.3%

(1) The unallocated corporate items include the effects of amortization of acquisition-related intangible assets, share-based compensation expense, impact to cost of sales from purchase accounting adjustments to inventory, and restructuring and other charges. We do not allocate these items to the gross margin for each segment because management does not include such information in measuring the performance of the operating segments.

### *Three Months Ended January 26, 2013 Compared with Three Months Ended January 28, 2012*

We experienced a gross margin percentage decrease in our Americas segment, while our EMEA and APJC segments experienced a gross margin percentage increase.

The Americas segment experienced a gross margin percentage decrease due to the impacts from higher sales discounts, rebates, unfavorable pricing; and also due to unfavorable mix impacts. The unfavorable mix impacts were due to higher revenue from our lower margin Data Center products. A slight decline in our service gross margin in this segment also contributed to the decrease. Partially offsetting these factors were productivity improvements, driven in large part by lower overall manufacturing costs and higher volume.

The gross margin percentage increase in our EMEA segment was the result of higher service gross margin as our product gross margin percentage was unchanged in this segment.

Our APJC segment gross margin percentage increased primarily as a result of productivity improvements and a more favorable mix of products sold during the current period, driven by lower NGN Routing sales. Partially offsetting these factors were the impacts from higher sales discounts, rebates, unfavorable pricing, and a decline in our service gross margin.





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

*Six Months Ended January 26, 2013 Compared with Six Months Ended January 28, 2012*

The Americas segment experienced a slight gross margin percentage decrease due to higher sales discounts, rebates and unfavorable pricing, and also due to an unfavorable mix impact, all partially offset by productivity improvements.

The gross margin percentage increase in our EMEA segment was primarily the result of productivity improvements from lower overall manufacturing costs, a favorable mix of products sold, and higher service gross margin. Partially offsetting these favorable impacts to gross margin were negative impacts from higher sales discounts, rebates and unfavorable pricing.

The APJC segment gross margin percentage was flat as compared with the corresponding period of fiscal 2012, as a slightly lower product gross margin percentage was offset by a higher service gross margin percentage.

**Factors That May Impact Net Sales and Gross Margin**

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

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

Our distributors and retail partners participate in various cooperative marketing and other programs. Increased sales to our distributors and retail partners generally result in greater difficulty in forecasting the mix of our products and, to a certain degree, the timing of orders from our customers. We recognize revenue for sales to our distributors and retail partners generally based on a sell-through method using information provided by them, and we maintain estimated accruals and allowances for all cooperative marketing and other programs.

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

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

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

	Three Months Ended				Six Months Ended			
	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent	January 26, 2013	January 28, 2012	Variance in Dollars	Variance in Percent
Research and development	\$ 1,452	\$ 1,339	\$ 113	8.4 %	\$ 2,883	\$ 2,714	\$ 169	6.2 %
<i>Percentage of net sales</i>	<i>12.0%</i>	<i>11.6%</i>			<i>12.0%</i>	<i>11.9%</i>		
Sales and marketing	2,387	2,395	(8)	(0.3)%	4,803	4,847	(44)	(0.9)%
<i>Percentage of net sales</i>	<i>19.7%</i>	<i>20.8%</i>			<i>20.0%</i>	<i>21.3%</i>		
General and administrative	584	497	87	17.5 %	1,144	1,049	95	9.1 %
<i>Percentage of net sales</i>	<i>4.8%</i>	<i>4.3%</i>			<i>4.8%</i>	<i>4.6%</i>		
<b>Total</b>	<b>\$ 4,423</b>	<b>\$ 4,231</b>	<b>\$ 192</b>	<b>4.5 %</b>	<b>\$ 8,830</b>	<b>\$ 8,610</b>	<b>\$ 220</b>	<b>2.6 %</b>
<i>Percentage of net sales</i>	<i>36.6%</i>	<i>36.7%</i>			<i>36.8%</i>	<i>37.8%</i>		

#### R&D Expenses

The increase in R&D expenses for the second quarter and first six months of fiscal 2013, as compared with the corresponding periods in fiscal 2012, was primarily due to higher headcount-related expenses attributable in large part to our acquisition of NDS at the beginning of fiscal 2013. Partially offsetting these costs was lower share-based compensation expense.

We continue to invest in R&D in order to bring a broad range of products to market in a timely fashion. If we believe that we are unable to enter a particular market in a timely manner with internally developed products, we may purchase or license technology from other businesses, or we may partner with or acquire businesses as an alternative to internal R&D.

#### Sales and Marketing Expenses

Sales and marketing expenses decreased by \$8 million in the second quarter of fiscal 2013, as compared with the second quarter of fiscal 2012. The decrease was primarily in sales expenses where lower discretionary spending and lower share-based compensation expense were partially offset by higher headcount-related expense resulting largely from our acquisition of NDS at the beginning of fiscal 2013. Marketing expenses were relatively flat as higher headcount-related expenses and discretionary spending for prototype development were offset by lower share-based compensation expense.

Sales and marketing expenses decreased by \$44 million for the first six months of fiscal 2013, as compared with the first six months of fiscal 2012, due to lower expenses in both sales and marketing. The decrease in sales expenses was primarily due to lower headcount-related expenses as well as lower share-based compensation expense, partially offset by sales expenses attributable to NDS. The decrease in marketing expenses was primarily due to lower discretionary spending and lower share-based compensation expense.

#### G&A Expenses

G&A expenses increased in the second quarter and first six months of fiscal 2013, as compared with the corresponding periods in fiscal 2012, primarily due to increased headcount-related expenses attributable in part to the acquisition of NDS at the beginning of fiscal 2013, and higher corporate-level expenses. Corporate-level expenses, which tended to vary from period to period, included operational infrastructure activities such as real estate actions; IT project implementations, which included investments in our global data center infrastructure; and investments related to operational and financial systems.



### *Effect of Foreign Currency*

In the second quarter of fiscal 2013, foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by \$47 million, or approximately 1.1%, compared with the second quarter of fiscal 2012. In the first six months of fiscal 2013, foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by \$149 million, or approximately 1.7%, compared with the first six months of fiscal 2012.

### **Headcount**

Our headcount increased by approximately 1,100 employees in the second quarter of fiscal 2013 and increased by approximately 6,800 employees in the first six months of fiscal 2013. The increase for the second quarter of fiscal 2013 was attributable to headcount from acquisitions, the largest of which was Meraki, as well as strategic hiring primarily in engineering and services. The increase for the first six months of fiscal 2013 was attributable to these factors as well as the acquisition of NDS at the beginning of fiscal 2013.

### **Share-Based Compensation Expense**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Cost of sales - product	\$ 11	\$ 14	\$ 21	\$ 27
Cost of sales - service	36	40	71	77
Share-based compensation expense in cost of sales	47	54	92	104
Research and development	72	99	156	200
Sales and marketing	135	149	265	291
General and administrative	48	54	98	102
Restructuring and other charges	—	(2)	(3)	(2)
Share-based compensation expense in operating expenses	255	300	516	591
Total share-based compensation expense	\$ 302	\$ 354	\$ 608	\$ 695

The year-over-year decrease in share-based compensation expense for the second quarter and first six months of fiscal 2013, as compared with the corresponding prior year periods, was due primarily to the effect of a decrease in the aggregate value of share-based awards granted in recent periods. See Note 14 to the Consolidated Financial Statements.

### **Amortization of Purchased Intangible Assets**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Amortization of purchased intangible assets included in operating expenses	\$ 118	\$ 97	\$ 240	\$ 196

The increase in amortization of purchased intangible assets for the second quarter and first six months of fiscal 2013, as compared with the corresponding periods in fiscal 2012, was due to amortization of purchased intangible assets from our acquisitions of NDS at the beginning of fiscal 2013, and from our other, more recent acquisitions. For additional information regarding purchased intangible assets, see Note 4 to the Consolidated Financial Statements.

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

## Restructuring and Other Charges

In the second quarter and first six months of fiscal 2013, we incurred within operating expenses net restructuring and other charges of approximately \$13 million and \$72 million, respectively. These charges were related primarily to employee severance charges for employees subject to our workforce reduction that we announced in late fiscal 2011. In the second quarter and first six months of fiscal 2012, we incurred within operating expenses restructuring and other charges of \$3 million and \$205 million, respectively. See Note 5 to the Consolidated Financial Statements.

## Operating Income

The following table presents our operating income and our operating income as a percentage of revenue (in millions, except percentages):

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Operating income	\$ 2,789	\$ 2,734	\$ 5,440	\$ 4,944
Operating income as a percentage of revenue	23.1%	23.7%	22.7%	21.7%

In the second quarter of fiscal 2013, as compared with the second quarter of fiscal 2012, operating income increased by 2%, and as a percentage of revenue operating income decreased by 0.6 percentage points. The decrease largely resulted from a lower gross margin, as operating expenses as a percentage of revenue remained relatively flat on a year-over-year basis.

In the first six months of fiscal 2013, as compared with the first six months of fiscal 2012, operating income increased by 10%, and as a percentage of revenue operating income increased by 1.0 percentage points. The increases largely resulted from the following: revenue growth; effective expense management which resulted in lower total R&D, sales and marketing, and G&A expenses as a percentage of revenue; lower restructuring and other charges; and lower share-based compensation expense.

## Interest and Other Income (Loss), Net

Interest Income (Expense), Net The following table summarizes interest income and interest expense (in millions):

	Three Months Ended			Six Months Ended		
	January 26, 2013	January 28, 2012	Variance in Dollars	January 26, 2013	January 28, 2012	Variance in Dollars
Interest income	\$ 160	\$ 158	\$ 2	\$ 321	\$ 322	\$ (1)
Interest expense	(147)	(150)	3	(295)	(298)	3
Interest income (expense), net	\$ 13	\$ 8	\$ 5	\$ 26	\$ 24	\$ 2

For the second quarter and first six months of fiscal 2013, interest income remained fairly constant compared with the corresponding periods in fiscal 2012. Increased interest income earned on financing receivables was substantially offset by lower interest income from our portfolio of cash, cash equivalents, and fixed income investments as a result of lower average rates of interest on our portfolio of cash, cash equivalents, and fixed income investments. For the second quarter and first six months of fiscal 2013, interest expense decreased slightly compared with the corresponding periods in fiscal 2012 due to lower average rates of interest on our debt in the current fiscal periods.

Other Income (Loss), Net The components of other income (loss), net, are summarized as follows (in millions):

	Three Months Ended			Six Months Ended		
	January 26, 2013	January 28, 2012	Variance in Dollars	January 26, 2013	January 28, 2012	Variance in Dollars
<b>Gains (losses) on investments, net:</b>						
Publicly traded equity securities	\$ 4	\$ 31	\$ (27)	\$ 14	\$ 15	\$ (1)
Fixed income securities	9	6	3	26	31	(5)
Total available-for-sale investments	13	37	(24)	40	46	(6)
Privately held companies	(12)	(39)	27	(54)	(35)	(19)
Net gains (losses) on investments	1	(2)	3	(14)	11	(25)
<b>Other gains (losses), net</b>	(23)	9	(32)	(41)	15	(56)
Other income (loss), net	\$ (22)	\$ 7	\$ (29)	\$ (55)	\$ 26	\$ (81)

The decrease in total net gains on available-for-sale investments in the second quarter of fiscal 2013 compared with the second quarter of fiscal 2012 was attributable to significantly lower net gains on publicly traded equity securities, partially offset by slightly higher gains on fixed income securities in the current period as a result of market conditions and the timing of sales of these securities. The change in net losses on investments in privately held companies was driven primarily by lower equity method losses in the second quarter of fiscal 2013, related in part to lower losses from our proportional share of the VCE joint venture. The change in other gains (losses), net for the second quarter of fiscal 2013 as compared with the second quarter of fiscal 2012 was primarily due to foreign exchange impacts and an increase in donations.

The decrease in total net gains on available-for-sale investments in the first six months of fiscal 2013 compared with the first six months of fiscal 2012 was attributable primarily to lower gains on fixed income securities in the current period as a result of market conditions and the timing of sales of these securities. The change in net losses on investments in privately held companies was driven primarily by higher equity method losses in the first six months of fiscal 2013. The change in other gains (losses), net for the first six months of fiscal 2013 as compared with the first six months of fiscal 2012 was primarily due to foreign exchange impacts and an increase in donations.

### **Provision for (Benefit from) Income Taxes**

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

Our provision for (benefit from) income taxes resulted in an effective tax rate of (13.1%) for the second quarter of fiscal 2013, as compared with an effective tax rate of 20.6% for the second quarter of fiscal 2012, which resulted in a net 33.7 percentage point decrease for the second quarter of fiscal 2013 as compared with the second quarter of fiscal 2012. Our provision for income taxes resulted in an effective tax rate of 3.3% for the first six months of fiscal 2013 compared with 20.7% for the first six months of fiscal 2012, which resulted in a net 17.4 percentage point decrease for the first six months of fiscal 2013, as compared with the first six months of fiscal 2012. The decrease in the effective tax rates for both the second quarter and first six months of fiscal 2013, as compared to the second quarter and first six months of fiscal 2012, was primarily due to the recognition of a net benefit to the provision for income taxes of \$794 million related to our settlement with the IRS of all outstanding items covering fiscal years 2002 through 2007 and a tax benefit of \$132 million related to the reinstatement of the U.S. federal R&D tax credit, of which \$72 million related to fiscal 2012 R&D expenses.

## LIQUIDITY AND CAPITAL RESOURCES

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

### Balance Sheet and Cash Flows

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

	January 26, 2013	July 28, 2012	Increase (Decrease)
Cash and cash equivalents	\$ 6,847	\$ 9,799	\$ (2,952)
Fixed income securities	37,421	37,297	124
Publicly traded equity securities	2,108	1,620	488
Total	\$ 46,376	\$ 48,716	\$ (2,340)

The decrease in cash and cash equivalents and investments in the first six months of fiscal 2013 was primarily the result of cash paid for acquisitions of \$6.0 billion. Other significant uses of cash in the first six months of fiscal 2013 included cash dividends paid of \$1.5 billion, the repurchase of common stock of \$0.9 billion, and capital expenditures of \$0.6 billion. Partially offsetting these cash outflows were cash provided by operating activities of \$5.8 billion, an increase from \$5.4 billion provided in the first six months of fiscal 2012, and issuance of common stock of \$0.7 billion.

The increase in cash provided by operating activities in the first six months of fiscal 2013 compared with the corresponding period in fiscal 2012 was primarily the result of an increase in net income.

Our total in cash and cash equivalents and investments held by various foreign subsidiaries was \$39.4 billion and \$42.5 billion as of January 26, 2013 and July 28, 2012, respectively. Under current tax laws and regulations, if cash and cash equivalents and investments held outside the United States were distributed to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The balance available in the United States as of January 26, 2013 and July 28, 2012 was \$7.0 billion and \$6.2 billion, respectively.

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

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, the rate at which products are shipped during the quarter (which we refer to as shipment linearity), the timing and collection of accounts receivable and financing receivables, inventory and supply chain management, deferred revenue, excess tax benefits resulting from share-based compensation, and the timing and amount of tax and other payments. For additional discussion, see "Part II, Item 1A. Risk Factors" in this report.

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

	January 26, 2013	July 28, 2012	Increase (Decrease)
Accounts receivable, net	\$ 4,462	\$ 4,369	\$ 93
DSO	34	34	—

Our accounts receivable net, as of January 26, 2013 increased by approximately 2% compared with the end of fiscal 2012. Our DSO as of January 26, 2013 was flat compared with the end of fiscal 2012. DSO was flat as the favorable impact from an improvement in shipment linearity during the second quarter of fiscal 2013, compared with the fourth quarter of fiscal 2012, was offset by the timing of collections.



Inventory Supply Chain The following table summarizes our inventories and purchase commitments with contract manufacturers and suppliers (in millions, except annualized inventory turns):

	January 26, 2013	July 28, 2012	Increase (Decrease)
Inventories	\$ 1,574	\$ 1,663	\$ (89)
Annualized inventory turns	11.6	11.7	(0.1)
Purchase commitments with contract manufacturers and suppliers	\$ 3,824	\$ 3,869	\$ (45)

Inventories as of January 26, 2013 decreased by 5% from our balance at the end of fiscal 2012, and for the same period purchase commitments with contract manufacturers and suppliers declined by approximately 1%. On a combined basis, inventories and purchase commitments with contract manufacturers and suppliers decreased by 2% compared with the end of fiscal 2012.

The inventory decrease was due mainly to lower levels of manufactured finished goods. The decline in purchase commitments with contract manufacturers and suppliers as of the end of the second quarter of fiscal 2013, as compared with the end of fiscal 2012, was attributable to further optimization of our supply chain. We believe our inventory and purchase commitments levels are in line with our current demand forecasts.

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

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

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

Financing Receivables and Guarantees We measure our net balance sheet exposure position related to our financing receivables and financing guarantees by reducing the total of gross financing receivables and financing guarantees by the associated allowances for credit loss and deferred revenue. As of January 26, 2013, our net balance sheet exposure position related to financing receivables and financing guarantees was as follows (in millions):

	FINANCING RECEIVABLES				FINANCING GUARANTEES			TOTAL
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total	Channel Partner	End-User Customers	Total	
<u>January 26, 2013</u>								
Gross receivables, net of unearned income	\$ 3,444	\$ 1,785	\$ 2,863	\$ 8,092	\$ 491	\$ 254	\$ 745	\$ 8,837
Allowance for credit loss	(247)	(101)	(13)	(361)	—	—	—	(361)
Deferred revenue	(67)	(58)	(1,943)	(2,068)	(267)	(217)	(484)	(2,552)
Net balance sheet exposure	\$ 3,130	\$ 1,626	\$ 907	\$ 5,663	\$ 224	\$ 37	\$ 261	\$ 5,924



**Financing Receivables** Gross financing receivables less unearned income increased by 6% compared with the end of fiscal 2012. The change was primarily due to an 8% increase in both lease receivables and financed service contracts and other, partially reduced by a 1% decline in loan receivables. We provide financing to certain end-user customers and channel partners to enable sales of our products, services, and networking solutions. These financing arrangements include leases, financed service contracts, and loans. Arrangements related to leases are generally collateralized by a security interest in the underlying assets. Lease receivables include sales-type and direct-financing leases. We also provide certain qualified customers financing for long-term service contracts, which primarily relate to technical support services and advanced services. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services. We expect to continue to expand the use of our financing programs in the near term.

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

**Deferred Revenue Related to Financing Receivables and Guarantees** The majority of the deferred revenue in the preceding table is related to financed service contracts. The majority of the revenue related to financed service contracts, which primarily relates to technical support services, is deferred as the revenue related to financed service contracts is recognized ratably over the period during which the related services are to be performed. A portion of the revenue related to lease and loan receivables is also deferred and included in deferred product revenue based on revenue recognition criteria not currently having been met.

#### **Borrowings**

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

	January 26, 2013	July 28, 2012
Senior notes:		
Floating-rate notes, due 2014	\$ 1,250	\$ 1,250
1.625% fixed-rate notes, due 2014	2,000	2,000
2.90% fixed-rate notes, due 2014	500	500
5.50% fixed-rate notes, due 2016	3,000	3,000
3.15% fixed-rate notes, due 2017	750	750
4.95% fixed-rate notes, due 2019	2,000	2,000
4.45% fixed-rate notes, due 2020	2,500	2,500
5.90% fixed-rate notes, due 2039	2,000	2,000
5.50% fixed-rate notes, due 2040	2,000	2,000
<b>Total</b>	<b>\$ 16,000</b>	<b>\$ 16,000</b>

Interest is payable semiannually on each class of the senior fixed-rate notes, each of which is redeemable by us at any time, subject to a make-whole premium. Interest is payable quarterly on the floating-rate notes. We were in compliance with all debt covenants as of January 26, 2013.

**Commercial Paper** In fiscal 2011 we established a short-term debt financing program of up to \$3.0 billion through the issuance of commercial paper notes. As of January 26, 2013 and July 28, 2012, we had no commercial paper notes outstanding under this program.

**Other Borrowings** Short-term debt includes notes and credit facilities with a number of financial institutions that are available to certain of our foreign subsidiaries. The amount of borrowings outstanding under these arrangements was \$37 million and \$31 million as of January 26, 2013 and July 28, 2012, respectively. As of January 26, 2013 and July 28, 2012, we also had an additional \$10 million of long-term debt, in addition to our senior notes.

**Credit Facility** On February 17, 2012, we terminated our then-existing credit facility and entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America's "prime rate" as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on our senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc. The credit agreement requires that we comply with certain covenants, including that we maintain an interest coverage ratio as defined in the agreement. As of January 26, 2013, we were in compliance with the required interest coverage ratio and the other covenants, and we had not borrowed any funds under the credit facility.

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

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

	January 26, 2013	July 28, 2012	Increase (Decrease)
Service	\$ 9,055	\$ 9,173	\$ (118)
Product	4,266	3,707	559
Total	\$ 13,321	\$ 12,880	\$ 441
Reported as:			
Current	\$ 9,108	\$ 8,852	\$ 256
Noncurrent	4,213	4,028	185
Total	\$ 13,321	\$ 12,880	\$ 441

The 1% decrease in deferred service revenue reflects the ongoing amortization of deferred service revenue, partially offset by the impact of new contract initiations and renewals in the first six months of fiscal 2013. The increase in deferred product revenue was primarily due to increased deferrals related to subscription revenue arrangements and higher cash receipts related to unrecognized revenue from two-tier distributors as a result of an improvement in the linearity of shipments to these distributors.

## Contractual Obligations

### Operating Leases

We lease office space in many U.S. locations. Outside the United States, larger leased sites include sites in Australia, China, France, Germany, India, Israel, Italy, Japan, Norway, and the United Kingdom. We also lease equipment and vehicles. The future minimum lease payments under all of our noncancelable operating leases with an initial term in excess of one year as of January 26, 2013 were \$1.1 billion.

### **Other Commitments**

In connection with our business combinations and asset purchases, we have agreed to pay certain additional amounts contingent upon the achievement of agreed-upon technology, development, product, or other milestones or continued employment with us of certain employees of acquired entities. See Note 12 to the Consolidated Financial Statements.

We also have certain funding commitments primarily related to our investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were \$133 million as of January 26, 2013, compared with \$120 million as of July 28, 2012.

*Insieme Networks, Inc. ("Insieme")* In the third quarter of fiscal 2012, we made an investment in Insieme, an early stage company focused on research and development in the data center market. As set forth in the agreement between Cisco and Insieme, this investment includes \$100 million of funding and a license to certain of our technology. In addition, pursuant to a November 2012 amendment to the agreement between Cisco and Insieme, we agreed to invest an additional \$35 million in Insieme upon the satisfaction of certain conditions. As of January 26, 2013, we owned approximately 87% of Insieme as a result of these investments and have consolidated the results of Insieme in our Consolidated Financial Statements.

In connection with this investment, we have entered into a put/call option agreement that provides us with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders can require us to purchase their shares upon the occurrence of certain events. If we acquire the remaining interests of Insieme, the noncontrolling interest holders are eligible to receive two milestone payments, which will be determined using agreed-upon formulas based on revenue for certain of Insieme's products. We will begin recognizing the amounts due under the milestone payments when it is determined that such payments are probable of being earned, which we expect may be in fiscal 2014. When such a determination is made, the milestone payments will then be recorded as compensation expense by us based on an estimate of the fair value of the amounts probable of being earned, pursuant to a vesting schedule. Subsequent changes to the fair value of the amounts probable of being earned and the continued vesting will result in adjustments to the recorded compensation expense. The maximum amount that could be recorded as compensation expense by us is approximately \$863 million. This amount was increased from up to a previous maximum of \$750 million, as a result of the November 2012 amendment, as the parties recognized that higher staffing levels may be necessary to perform additional product development. The milestone payments, if earned, are expected to be paid primarily during fiscal 2016 and fiscal 2017.

### **Off-Balance Sheet Arrangements**

We consider our investments in unconsolidated variable interest entities to be off-balance sheet arrangements. In the ordinary course of business, we have investments in privately held companies and provide financing to certain customers. These privately held companies and customers may be considered to be variable interest entities. We evaluate on an ongoing basis our investments in these privately held companies and customer financings, and we have determined that as of January 26, 2013 there were no material unconsolidated variable interest entities.

VCE is a joint venture that we formed in fiscal 2010 with EMC Corporation ("EMC"), with investments from VMware, Inc. ("VMware") and Intel Corporation. VCE helps organizations leverage best-in-class technologies and disciplines from Cisco, EMC, and VMware to enable the transformation to cloud computing. As of January 26, 2013, our cumulative gross investment in VCE was approximately \$457 million, inclusive of accrued interest, and our ownership percentage was approximately 35%. We account for our investment in VCE under the equity method, and our portion of VCE's net loss is recognized in other income (loss), net. As of January 26, 2013, we have recorded cumulative losses since inception from VCE of \$325 million. Our carrying value in VCE as of January 26, 2013 was \$132 million. Over the next 12 months, as VCE scales its operations, we expect that we will make additional investments in VCE and may incur additional losses proportionate with our share ownership.

From time to time, EMC and Cisco may enter into guarantee agreements on behalf of VCE to indemnify third parties, such as customers, for monetary damages. Such guarantees were not material as of January 26, 2013.

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

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

### **Securities Lending**

We periodically engage in securities lending activities with certain of our available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the six months ended January 26, 2013 and January 28, 2012 was \$0.8 billion and \$0.4 billion, respectively. We require collateral equal to at least 102% of the fair market value of the loaned security and that the collateral be in the form of cash or liquid, high-quality assets. We engage in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify us against collateral losses. As of January 26, 2013 and July 28, 2012, we had no outstanding securities lending transactions. We believe these arrangements do not present a material risk or impact to our liquidity requirements.

## Stock Repurchase Program

In September 2001, our Board of Directors authorized a stock repurchase program. As of January 26, 2013, our Board of Directors had authorized an aggregate repurchase of up to \$82 billion of common stock under this program, and the remaining authorized repurchase amount was \$5.1 billion with no termination date. The stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted- Average Price per Share	Amount Repurchased
Cumulative balance at July 28, 2012	3,740	\$ 20.36	\$ 76,133
Repurchase of common stock under the stock repurchase program	40	18.73	753
Cumulative balance at January 26, 2013	3,780	\$ 20.34	\$ 76,886

## Dividends

During fiscal 2013 and 2012, our Board of Directors declared the following dividends (in millions, except per-share amounts):

Declaration Date	Dividend per Share	Record Date	Amount	Payment Date
<b>Fiscal 2013</b>				
November 15, 2012	\$ 0.14	November 29, 2012	\$ 743	December 19, 2012
August 14, 2012	0.14	October 4, 2012	744	October 24, 2012
Total	\$ 0.28		\$ 1,487	
<b>Fiscal 2012</b>				
June 14, 2012	\$ 0.08	July 5, 2012	\$ 425	July 25, 2012
February 7, 2012	0.08	April 5, 2012	432	April 25, 2012
December 15, 2011	0.06	January 5, 2012	322	January 25, 2012
September 20, 2011	0.06	October 6, 2011	322	October 26, 2011
Total	\$ 0.28		\$ 1,501	

Any future dividends will be subject to the approval of our Board of Directors.

## Liquidity and Capital Resource Requirements

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

#### Interest Rate Risk

**Fixed Income Securities** We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. We may utilize derivative instruments designated as hedging instruments to achieve our investment objectives. We had no outstanding hedging instruments for our fixed income securities as of January 26, 2013. Our fixed income investments are held for purposes other than trading. Our fixed income investments were not leveraged as of January 26, 2013. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. As of January 26, 2013, approximately 77% of our fixed income securities balance consisted of U.S. government and U.S. government agency securities. We believe the overall credit quality of our portfolio is strong.

**Debt** As of January 26, 2013, we had \$16.01 billion in principal amount of long-term debt outstanding, which consisted of \$1.25 billion floating-rate notes and \$14.76 billion fixed-rate notes. The carrying amount of our long-term debt was \$16.3 billion, and the related fair value was \$18.3 billion, which fair value is based on market prices. As of January 26, 2013, a hypothetical 50 basis points increase or decrease in market interest rates would change the fair value of the fixed-rate debt, excluding the \$4.25 billion of hedged debt, by a decrease of \$0.5 billion or an increase of \$0.6 billion, respectively. However, this hypothetical change in interest rates would not impact the interest expense on the fixed-rate debt, which is not hedged.

#### Equity Price Risk

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

**Publicly Traded Equity Securities** The following tables present the hypothetical fair values of publicly traded equity securities as a result of selected potential decreases and increases in the price of each equity security in the portfolio, excluding hedged equity securities, if any. Potential fluctuations in the price of each equity security in the portfolio of plus or minus 10%, 20%, and 30% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of January 26, 2013 and July 28, 2012 are as follows (in millions):

	VALUATION OF SECURITIES GIVEN AN X% DECREASE IN EACH STOCK'S PRICE			FAIR VALUE AS OF JANUARY 26, 2013	VALUATION OF SECURITIES GIVEN AN X% INCREASE IN EACH STOCK'S PRICE		
	(30)%	(20)%	(10)%		10%	20%	30%
	Publicly traded equity securities	\$ 963	\$ 1,101		\$ 1,238	\$ 1,376	\$ 1,514

	VALUATION OF SECURITIES GIVEN AN X% DECREASE IN EACH STOCK'S PRICE			FAIR VALUE AS OF JULY 28, 2012	VALUATION OF SECURITIES GIVEN AN X% INCREASE IN EACH STOCK'S PRICE		
	(30)%	(20)%	(10)%		10%	20%	30%
	Publicly traded equity securities	\$ 944	\$ 1,078		\$ 1,213	\$ 1,348	\$ 1,483

There were no impairment charges on our investments in publicly traded equity securities for the periods presented.

**Investments in Privately Held Companies** We have also invested in privately held companies. These investments are recorded in other assets in our Consolidated Balance Sheets and are accounted for using primarily either the cost or the equity method. As of January 26, 2013, the total carrying amount of our investments in privately held companies was \$869 million, compared with \$858 million at July 28, 2012. Some of the privately held companies in which we invested are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We could lose our entire investment in these companies. Our evaluation of investments in privately held companies is based on the fundamentals of the businesses invested in, including, among other factors, the nature of their technologies and potential for financial return. Our impairment charges on investments in privately held companies were \$8 million and \$1 million for the second quarters of fiscal 2013 and fiscal 2012, respectively, and were \$18 million and \$2 million during the first six months of fiscal 2013 and fiscal 2012, respectively.

### Foreign Currency Exchange Risk

Our foreign exchange forward and option contracts outstanding as of January 26, 2013 and July 28, 2012 are summarized in U.S. dollar equivalents as follows (in millions):

	January 26, 2013		July 28, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Forward contracts:</b>				
Purchased	\$ 2,883	\$ 11	\$ 3,336	\$ (10)
Sold	\$ 1,186	\$ (4)	\$ 1,566	\$ 5
<b>Option contracts:</b>				
Purchased	\$ 1,088	\$ 33	\$ 2,478	\$ 31
Sold	\$ 1,045	\$ (4)	\$ 2,239	\$ (25)

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

Approximately 70% of our operating expenses are U.S.-dollar denominated. In the first six months of fiscal 2013, foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by \$149 million, or approximately 1.7% compared with the first six months of fiscal 2012. To reduce variability in operating expenses and service cost of sales caused by non-U.S.-dollar denominated operating expenses and costs, we hedge certain forecasted foreign currency transactions with currency options and forward contracts. These hedging programs are not designed to provide foreign currency protection over long time horizons. In designing a specific hedging approach, we consider several factors, including offsetting exposures, significance of exposures, costs associated with entering into a particular hedge instrument, and potential effectiveness of the hedge. The gains and losses on foreign exchange contracts mitigate the effect of currency movements on our operating expenses and service cost of sales.

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

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

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



**Item 4. Controls and Procedures**

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

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our second quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Brazilian authorities have investigated our Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In addition to claims asserted by the Brazilian federal tax authorities in prior fiscal years, tax authorities from the Brazilian state of Sao Paulo have asserted similar claims on the same legal basis in prior fiscal years. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against our Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008, and the asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to approximately \$426 million for the alleged evasion of import and other taxes, approximately \$1.1 billion for interest, and approximately \$1.9 billion for various penalties, all determined using an exchange rate as of January 26, 2013. We have completed a thorough review of the matters and believe the asserted claims against our Brazilian subsidiary are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against our Brazilian subsidiary and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years.

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

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

We are subject to patent claims asserted by VirnetX, Inc. on August 11, 2010 in the Federal District Court for the Eastern District of Texas. VirnetX alleges that various of our products that implement a method for secure communication using virtual private networks infringe certain patents. VirnetX seeks monetary damages. The trial on these claims is scheduled to begin in March 2013. We believe that we have strong arguments that our products do not use the technology described in the patents and that the patents are invalid. If the jury were to find that our products infringe and find that the patents are not invalid, we believe that damages, as appropriately measured, would not be material given the limited contribution played by the alleged patented technology. However, due to the uncertainty surrounding the litigation process, we are unable to reasonably estimate the ultimate outcome of this litigation at this time.

Cisco and a service provider customer are subject to patent claims asserted by TiVo, Inc. on June 4, 2012 in the Federal District Court for the Eastern District of Texas. TiVo alleges that our digital video recorders deployed by the service provider customer infringe certain of its patents. TiVo seeks monetary damages and injunctive relief. The trial on these claims is scheduled to begin in March 2014. We intend to show at trial that our products do not use the technology described in the patents.

TiVo previously filed a similar patent lawsuit against the same service provider customer, accusing digital video recorders manufactured by one of our competitors. The outcome of that case, which is scheduled for trial in May 2013, could have an impact on the timing and outcome of our case. Due to the uncertainty surrounding the litigation process, which involves numerous defendants, we are unable to reasonably estimate the ultimate outcome of this litigation at this time.

In addition, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve



these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows. For additional information regarding intellectual property litigation, see “Part II, Item 1A. Risk Factors-We may be found to infringe on intellectual property rights of others” herein.

## Item 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in “Part I, Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended July 28, 2012.

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

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

- Fluctuations in demand for our products and services, especially with respect to telecommunications service providers and Internet businesses, in part due to changes in the global economic environment
- Changes in sales and implementation cycles for our products and reduced visibility into our customers' spending plans and associated revenue
- Our ability to maintain appropriate inventory levels and purchase commitments
- Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation and different business models from various geographic regions
- The overall movement toward industry consolidation among both our competitors and our customers
- The introduction and market acceptance of new technologies and products and our success in new and evolving markets, including in our newer product categories such as data center and collaboration and in emerging technologies, as well as the adoption of new standards
- Variations in sales channels, product costs, or mix of products sold
- The timing, size, and mix of orders from customers
- Manufacturing and customer lead times
- Fluctuations in our gross margins, and the factors that contribute to such fluctuations, as described below
- The ability of our customers, channel partners, contract manufacturers and suppliers to obtain financing or to fund capital expenditures, especially during a period of global credit market disruption or in the event of customer, channel partner, contract manufacturer or supplier financial problems
- Share-based compensation expense
- Actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our Consolidated Financial Statements
- How well we execute on our strategy and operating plans and the impact of changes in our business model that could result in significant restructuring charges
- Our ability to achieve targeted cost reductions
- Benefits anticipated from our investments in engineering, sales and manufacturing activities
- Changes in tax laws, tax regulations and/or accounting rules



As a consequence, operating results for a particular future period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition that could adversely affect our stock price.

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

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

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

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

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

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

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

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

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



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

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

We plan our operating expense levels based primarily on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short term. A shortfall in revenue could lead to operating results being below expectations because we may not be able to quickly reduce these fixed expenses in response to short-term business changes.

Any of the above factors could have a material adverse impact on our operations and financial results.

**WE EXPECT GROSS MARGIN TO VARY OVER TIME, AND OUR LEVEL OF PRODUCT GROSS MARGIN MAY NOT BE SUSTAINABLE**

Our level of product gross margins declined in fiscal 2011 and to a lesser extent in fiscal 2012 and may continue to decline and be adversely affected by numerous factors, including:

- Changes in customer, geographic, or product mix, including mix of configurations within each product group
- Introduction of new products, including products with price-performance advantages
- Our ability to reduce production costs
- Entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development
- Sales discounts
- Increases in material, labor or other manufacturing-related costs, which could be significant especially during periods of supply constraints
- Excess inventory and inventory holding charges
- Obsolescence charges
- Changes in shipment volume
- The timing of revenue recognition and revenue deferrals
- Increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates
- Lower than expected benefits from value engineering

- Increased price competition, including competitors from Asia, especially from China
- Changes in distribution channels
- Increased warranty costs
- Increased amortization of purchased intangible assets, especially from acquisitions
- 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.

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

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

**DISRUPTION OF OR CHANGES IN OUR DISTRIBUTION MODEL COULD HARM OUR SALES AND MARGINS**

If we fail to manage distribution of our products and services properly, or if our distributors' financial condition or operations weaken, our revenue and gross margins could be adversely affected.

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

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

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

- We compete with some of our channel partners, including through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products or otherwise compete with them
- Some of our channel partners may demand that we absorb a greater share of the risks that their customers may ask them to bear
- Some of our channel partners may have insufficient financial resources and may not be able to withstand changes and challenges in business conditions
- Revenue from indirect sales could suffer if our distributors' financial condition or operations weaken

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

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

The markets in which we compete are characterized by rapid change, converging technologies, and a migration to networking and communications solutions that offer relative advantages. These market factors represent a competitive threat to us. We compete with numerous vendors in each product category. The overall number of our competitors providing niche product solutions may increase. Also, the identity and composition of competitors may change as we increase our activity in newer product categories such as data center and collaboration and in our priorities. As we continue to expand globally, we may see new competition in different geographic regions. In particular, we have experienced price-focused competition from competitors in Asia, especially from China, and we anticipate this will continue.

Our competitors include Alcatel-Lucent; Arista Networks, Inc.; ARRIS Group, Inc.; Aruba Networks, Inc.; Avaya Inc.; Brocade Communications Systems, Inc.; Check Point Software Technologies Ltd.; Citrix Systems, Inc.; Dell Inc.; D-Link Corporation; LM Ericsson Telephone Company; Extreme Networks, Inc.; F5 Networks, Inc.; Fortinet, Inc.; Hewlett-Packard Company; Huawei Technologies Co., Ltd.; International Business Machines Corporation; Juniper Networks, Inc.; LogMeIn, Inc.; Meru Networks, Inc.; Microsoft Corporation; Motorola Mobility Holdings, Inc. (acquired by Google, Inc. in May 2012 and as to which Google in December 2012 agreed to sell the Motorola Home business segment to ARRIS Group, Inc.); Motorola Solutions, Inc.; NETGEAR, Inc.; Palo Alto Networks, Inc.; Polycom, Inc.; Riverbed Technology, Inc.; Symantec Corporation and VMware, Inc. ; among others.

Some of these companies compete across many of our product lines, while others are primarily focused in a specific product area. Barriers to entry are relatively low, and new ventures to create products that do or could compete with our products are regularly formed. In addition, some of our competitors may have greater resources, including technical and engineering resources, than we do. As we expand into new markets, we will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets. We also sometimes face competition from resellers and distributors of our products. Companies with whom we have strategic alliances in some areas may be competitors in other areas, and in our view this trend may increase.

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

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

- The ability to provide a broad range of networking and communications products and services
- Product performance





- Price
- The ability to introduce new products, including products with price-performance advantages
- The ability to reduce production costs
- The ability to provide value-added features such as security, reliability, and investment protection
- Conformance to standards
- Market presence
- The ability to provide financing
- Disruptive technology shifts and new business models

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

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

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

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

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

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

A reduction or interruption in supply; a significant increase in the price of one or more components; a failure to adequately authorize procurement of inventory by our contract manufacturers; a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs; or a decrease in demand for our products could materially adversely affect our business, operating results, and financial condition and could materially damage customer relationships. Furthermore, as a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are

higher than those available in the current market. In the event that we become committed to purchase components at prices in excess of the current market price when the components are actually used, our gross margins could decrease. We experienced longer than normal lead times on several of our products in fiscal 2010. The earthquake and tsunami in Japan during the third quarter of fiscal 2011 and the flooding in Thailand in the first quarter of fiscal 2012 resulted in industry-wide component supply constraints. Although we have generally secured additional supply or taken other mitigation actions when significant disruptions have occurred, if similar situations occur in the future, they could have a material adverse effect on our business, results of operations, and financial condition. See the risk factor above entitled “Our revenue for a particular period is difficult to predict, and a shortfall in revenue may harm our operating results.”

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. We have experienced component shortages in the past, including shortages caused by manufacturing process issues, that have affected our operations. We may in the future experience a shortage of certain component parts as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, or strong demand in the industry for those parts. A return to growth in the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and component demands within specific product categories and to establish optimal component levels and manufacturing capacity, especially for labor-intensive components, components for which we purchase a substantial portion of the supply, or re-ramping manufacturing capacity for highly complex products. For example, during fiscal 2010, we experienced longer than normal lead times on several of our products. This was attributable in part to increasing demand driven by the improvement in our overall markets, and similar to what is happening in the industry, the longer than normal lead time extensions also stemmed from supplier constraints based upon their labor and other actions taken during the global economic downturn. If shortages or delays persist or worsen, the price of these components may increase, or the components may not be available at all, and we may also encounter shortages if we do not accurately anticipate our needs. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed. Accordingly, our revenue and gross margins could suffer until other sources can be developed. Our operating results would also be adversely affected if, anticipating greater demand than actually develops, we commit to the purchase of more components than we need, which is more likely to occur in a period of demand uncertainties such as we are currently experiencing. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources, and a global economic downturn and related market uncertainty could negatively impact the availability of components from one or more of these sources, especially during times such as we have recently seen when there are supplier constraints based on labor and other actions taken during economic downturns. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

We believe that we may be faced with the following challenges in the future:

- New markets in which we participate may grow quickly, which may make it difficult to quickly obtain significant component capacity
- As we acquire companies and new technologies, we may be dependent, at least initially, on unfamiliar supply chains or relatively small supply partners
- We face competition for certain components that are supply-constrained, from existing competitors, and companies in other markets

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

affect our gross margins. For additional information regarding our purchase commitments with contract manufacturers and suppliers, see Note 12 to the Consolidated Financial Statements contained in this report.

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

The markets for our products are characterized by rapidly changing technology, evolving industry standards, new product introductions, and evolving methods of building and operating networks. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the production costs of existing products. We believe the industry is evolving to enable personal and business process collaboration enabled by networked technologies. As such, many of our strategic initiatives and investments are aimed at meeting the requirements that a network capable of multiple-party, collaborative interaction would demand, and the investments we have made and our architectural approach are designed to enable the increased use of the network as the platform for all forms of communications and IT. For example, in fiscal 2009 we launched our Cisco Unified Computing System, our next-generation enterprise data center platform architected to unite computing, network, storage access, and virtualization resources in a single system, which is designed to address the fundamental transformation occurring in the enterprise data center. Cisco Unified Computing System is one of several priorities on which we are focusing resources. Another example of a market transition we are focusing on is the move towards more programmable, flexible and virtual networks. In our view, this evolution is in its very early stages, and we believe the successful products and solutions in this market will combine ASICs, hardware, and software elements together.

The process of developing new technology, including technology related to more programmable, flexible and virtual networks, is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We must commit significant resources, including the investments we have been making in our priorities to developing new products before knowing whether our investments will result in products the market will accept. In particular, if our model of the evolution of networking to collaborative systems does not emerge as we believe it will, or if the industry does not evolve as we believe it will, or if our strategy for addressing this evolution is not successful, many of our strategic initiatives and investments may be of no or limited value. For example, if we do not introduce products related to network programmability, such as software-defined-networking products, in a timely fashion, or if product offerings in this market that ultimately succeed are based on technology, or an approach to technology, that differs from ours, our business could be harmed. Furthermore, we may not execute successfully on our vision because of challenges with regard to product planning and timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors, some of which may also be our strategic alliance partners, providing those solutions before we do and loss of market share, net sales, and earnings. The success of new products depends on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. The products and technologies in our newer product categories such as Data Center and Collaboration as well as those in our Other Products category that we identify as "emerging technologies" may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or new products.

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

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Although in certain instances our supply agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, our loss contingencies may include liabilities for contracts that we cannot cancel with contract manufacturers and suppliers. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings.

In fiscal 2012 we largely completed a process commenced in fiscal 2011 to lower our operating costs and to simplify our operating model and concentrate our focus on selected foundational priorities. We have incurred significant restructuring charges as a result of these activities. The changes to our business model may be disruptive, and the revised model that we adopt may not be more efficient or

effective than the aspects of our business model that are being revised. At the same time, we believe the effect of these changes has provided a one-time productivity benefit that is not likely to be achieved on a regular

basis. Our restructuring activities, including any related charges and the impact of the related headcount reductions, could have a material adverse effect on our business, operating results, and financial condition.

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

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

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

A substantial portion of our business and revenue depends on growth and evolution of the Internet, including the continued development of the Internet, and on the deployment of our products by customers who depend on such continued growth and evolution. To the extent that an economic slowdown or economic uncertainty and related reduction in capital spending adversely affect spending on Internet infrastructure we could experience material harm to our business, operating results, and financial condition.

Because of the rapid introduction of new products and changing customer requirements related to matters such as cost-effectiveness and security, we believe that there could be performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility. Because we are a large supplier of networking products, our business, operating results, and financial condition may be materially adversely affected, regardless of whether or not these problems are due to the performance of our own products. Such an event could also result in a material adverse effect on the market price of our common stock independent of direct effects on our business.

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

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

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products, such as Scientific-Atlanta, WebEx, Starent, Tandberg and NDS Group Limited
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions
- Potential difficulties in completing projects associated with in-process research and development intangibles
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions
- Initial dependence on unfamiliar supply chains or relatively small supply partners
- Insufficient revenue to offset increased expenses associated with acquisitions
- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans

Acquisitions may also cause us to:

- Issue common stock that would dilute our current shareholders' percentage ownership

- Use a substantial portion of our cash resources, or incur debt, as we did in fiscal 2006 when we issued and sold \$6.5 billion in senior unsecured notes to fund our acquisition of Scientific-Atlanta
- Significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition
- Assume liabilities
- Record goodwill and nonamortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges
- Incur amortization expenses related to certain intangible assets
- Incur tax expenses related to the effect of acquisitions on our intercompany research and development ("R&D") cost sharing arrangement and legal structure
- Incur large and immediate write-offs and restructuring and other related expenses
- Become subject to intellectual property or other litigation

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to a failure to do so. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products.

From time to time, we have made acquisitions that resulted in charges in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings. In addition, our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions. Risks related to new product development also apply to acquisitions. Please see the risk factors above, including the risk factor entitled "We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers' changing needs, our operating results and market share may suffer" for additional information.

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

As we focus on new market opportunities—for example, storage; wireless; security; transporting data, voice, and video traffic across the same network; and other areas within our newer products categories such as data center and collaboration, emerging technologies, and our priorities—we will increasingly compete with large telecommunications equipment suppliers as well as startup companies. Several of our competitors may have greater resources, including technical and engineering resources, than we do. Additionally, as customers in these markets complete infrastructure deployments, they may require greater levels of service, support, and financing than we have provided in the past, especially in emerging countries. Demand for these types of service, support, or financing contracts may increase in the future. There can be no assurance that we can provide products, service, support, and financing to effectively compete for these market opportunities.

Further, provision of greater levels of services, support and financing by us may result in a delay in the timing of revenue recognition. In addition, entry into other markets has subjected and will subject us to additional risks, particularly to those markets, including the effects of general market conditions and reduced consumer confidence.

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

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

are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating



results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.

#### **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. From time to time, 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. There can be no assurance that such remediation, depending on the product involved, would not have a material impact. An inability to cure a product defect could result in the failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, inventory costs, or product reengineering expenses, any of which could have a material impact on our revenue, margins, and net income.

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

We conduct significant sales and customer support operations in countries around the world and also depend on non-U.S. operations of our contract manufacturers, component suppliers and distribution partners. Although sales in several of our emerging countries decreased during the recent global economic downturn, several of our emerging countries generally have been relatively fast growing, and we have announced plans to expand our commitments and expectations in certain of those countries. As such, our growth depends in part on our increasing sales into emerging countries. Our future results could be materially adversely affected by a variety of political, economic or other factors relating to our operations inside and outside the United States, including impacts from federal U.S. budget discussions and impacts of any sequestration, the global macroeconomic environment and continuing challenges in Europe, whose macroeconomic condition could deteriorate further, any or all of which could have a material adverse effect on our operating results and financial condition, including, among others, the following:

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

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

Most of our sales are on an open credit basis, with typical payment terms of 30 days in the United States and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Beyond our open credit arrangements, we have also experienced demands for customer financing and facilitation of leasing arrangements. We expect demand for customer financing to continue, and recently we have been experiencing an increase in this demand as the credit markets have been impacted by the recent global economic downturn and related market uncertainty, including increased demand from customers in certain emerging countries. We believe customer financing is a competitive factor in obtaining business,



particularly in serving customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services.

Our exposure to the credit risks relating to our financing activities described above may increase if our customers are adversely affected by a global economic downturn or periods of economic uncertainty. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks.

In the past, there have been significant bankruptcies among customers both on open credit and with loan or lease financing arrangements, particularly among Internet businesses and service providers, causing us to incur economic or financial losses. There can be no assurance that additional losses will not be incurred. Although these losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. A portion of our sales is derived through our distributors and retail partners. These distributors and retail partners are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such business terms. However, distributors tend to have more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk, because they may be more likely to lack the reserve resources to meet payment obligations. Additionally, to the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

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

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

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

#### **OUR PROPRIETARY RIGHTS MAY PROVE DIFFICULT TO ENFORCE**

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

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

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible

to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

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

#### **WE RELY ON THE AVAILABILITY OF THIRD-PARTY LICENSES**

Many of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products.

#### **OUR OPERATING RESULTS AND FUTURE PROSPECTS COULD BE MATERIALLY HARMED BY UNCERTAINTIES OF REGULATION OF THE INTERNET**

Currently, few laws or regulations apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate. Such regulations could include matters such as voice over the Internet or using IP, encryption technology, sales taxes on Internet product sales, and access charges for Internet service providers. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products and, at the same time, increase the cost of selling our products, which could have a material adverse effect on our business, operating results, and financial condition.

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

Changes in telecommunications requirements, or regulatory requirements in other industries in which we operate, in the United States or other countries could affect the sales of our products. In particular, we believe that there may be future changes in U.S. telecommunications regulations that could slow the expansion of the service providers' network infrastructures and materially adversely affect our business, operating results, and financial condition.

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

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

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



to additional geopolitical and exchange rate risk. The loss of services of any of our key personnel; the inability to retain and attract qualified personnel in the future; or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions. In addition, companies in our industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

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

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. For example, Brazilian authorities have investigated our Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against our Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor. The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008 and the related asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to approximately \$426 million for the alleged evasion of import and other taxes, approximately \$1.1 billion for interest, and approximately \$1.9 billion for various penalties, all determined using an exchange rate as of January 26, 2013. We have completed a thorough review of the matters and believe the asserted claims against our Brazilian subsidiary are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against our Brazilian subsidiary and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years. An unfavorable resolution of lawsuits or governmental investigations could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the matters in which we are involved, see Item 1, "Legal Proceedings," contained in Part II of this report.

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

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

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

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



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

Despite our implementation of network security measures our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results, and financial condition. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may meet with resistance. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Likewise, events such as widespread blackouts could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, our business, operating results, and financial condition could be materially and adversely affected.

## **WE ARE EXPOSED TO FLUCTUATIONS IN THE MARKET VALUES OF OUR PORTFOLIO INVESTMENTS AND IN INTEREST RATES; IMPAIRMENT OF OUR INVESTMENTS COULD HARM OUR EARNINGS**

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income, net of tax. Our portfolio includes fixed income securities and equity investments in publicly traded companies, the values of which are subject to market price volatility to the extent unhedged. If such investments suffer market price declines, as we experienced with some of our investments during fiscal 2009, we may recognize in earnings the decline in the fair value of our investments below their cost basis when the decline is judged to be other than temporary. For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to the section titled "Quantitative and Qualitative Disclosures About Market Risk." Our investments in private companies are subject to risk of loss of investment capital. These investments are inherently risky because the markets for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire investment in these companies.

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

We have several strategic alliances with large and complex organizations and other companies with which we work to offer complementary products and services and have established a joint venture to market services associated with our Cisco Unified Computing System products. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. There can be no assurance we will realize the expected benefits from these strategic alliances or from the joint venture. If successful, these relationships may be mutually beneficial and result in industry growth. However, alliances carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic alliance and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties. Joint ventures can be difficult to manage, given the potentially different interests of joint venture partners.

## **OUR STOCK PRICE MAY BE VOLATILE**

Historically, our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results and the published expectations of analysts and as a result of announcements by our competitors and us. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, security of our products, or significant transactions can cause changes in our stock price. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, in particular, and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our current or potential competitors, may materially adversely affect the market price of our common stock in the future. Additionally, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our stock incentive program, may adversely affect our ability to retain key employees, virtually all of whom are compensated, in part, based on the performance of our stock price.

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

We have senior unsecured notes outstanding in an aggregate principal amount of \$16.0 billion that mature at specific dates in 2014, 2016, 2017, 2019, 2020, 2039 and 2040. We have also established a commercial paper program under which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$3.0 billion. We had no commercial paper notes outstanding under this program as of January 26, 2013. The outstanding senior unsecured notes bear fixed-rate interest payable semiannually, except \$1.25 billion of the notes which bears interest at a floating rate payable quarterly. The fair value of the long-term debt is subject to market interest rate volatility. The instruments governing the senior unsecured notes contain certain covenants applicable to us and our subsidiaries that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. In addition, we will be required to have available in the United States sufficient cash to repay all of our notes on maturity. There can be no assurance that our incurrence of this debt or any future debt will be a better means of providing liquidity to us than would our use of our existing cash resources, including cash currently held offshore. Further, we cannot be assured that our maintenance of this indebtedness or incurrence of future indebtedness will not adversely affect our operating results or financial condition. In addition, changes by any rating agency to our credit rating can negatively impact the value and liquidity of both our debt and equity securities, as well as the terms upon which we may borrow under our commercial paper program.

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

(a) None.

(b) None.

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

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u>
October 28, 2012 to November 24, 2012	3	\$ 17.03	3	\$ 5,571
November 25, 2012 to December 22, 2012	—	\$ —	—	\$ 5,571
December 23, 2012 to January 26, 2013	22	\$ 20.52	22	\$ 5,114
Total	25	\$ 20.15	25	

On September 13, 2001, we announced that our Board of Directors had authorized a stock repurchase program. As of January 26, 2013, our Board of Directors had authorized the repurchase of up to \$82 billion of common stock under this program. As of January 26, 2013, we had repurchased and retired 3.8 billion shares of our common stock at an average price of \$20.34 per share for an aggregate purchase price of \$76.9 billion since inception of the stock repurchase program, and the remaining authorized amount for stock repurchases under this program was \$5.1 billion with no termination date.

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the effect of the minimum statutory tax withholding requirements with the appropriate taxing authorities. Although these withheld shares are not issued or considered common stock repurchases under our stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting (see Note 13 to the Consolidated Financial Statements).



**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following documents are filed as Exhibits to this report:

- 10.1 Localization Agreement by and between Cisco Systems, Inc. and Wim Elfrink (incorporated by reference to Exhibit 10.1 of Form 8-K (File No. 000-18225) filed January 8, 2013)
- 10.2 Cisco Systems, Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.1 of Form 8-K (File No. 000-18225) filed November 16, 2012)
- 10.3 Cisco Systems, Inc. 2005 Stock Incentive Plan (including related form agreements)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
- 32.1 Section 1350 Certification of Principal Executive Officer
- 32.2 Section 1350 Certification of Principal Financial Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

Cisco Systems, Inc.

Date: February 19, 2013

By /s/ Frank A. Calderoni  
Frank A. Calderoni  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer and duly authorized signatory)

## EXHIBIT INDEX

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101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**CISCO SYSTEMS, INC.**  
**2005 STOCK INCENTIVE PLAN**  
**AS AMENDED AND RESTATED**  
**EFFECTIVE AS OF NOVEMBER 12, 2009**

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**CISCO SYSTEMS, INC.**  
**2005 STOCK INCENTIVE PLAN**  
**AS AMENDED AND RESTATED**  
(Effective as of November 12, 2009)

**SECTION 1. INTRODUCTION.**

The Company's shareholders approved the Cisco Systems, Inc. 2005 Stock Incentive Plan, as amended and restated and effective on November 15, 2007. The Company's Board of Directors approved an amendment and restatement of the Plan; provided that, the amendment and restatement of the Plan shall become effective upon its approval by Company shareholders. If the Company's shareholders do not approve the amendment and restatement of the Plan, Awards will be made under the Plan as approved by shareholders on November 15, 2007.

The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by offering Key Employees an opportunity to share in such long-term success by acquiring a proprietary interest in the Company.

The Plan seeks to achieve this purpose by providing for discretionary long-term incentive Awards in the form of Options (which may constitute Incentive Stock Options or Nonstatutory Stock Options), Stock Appreciation Rights, Stock Grants, and Stock Units.

The Plan shall be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or any related Stock Option Agreement, SAR Agreement, Stock Grant Agreement or Stock Unit Agreement.

**SECTION 2. DEFINITIONS.**

- (a) "Affiliate" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.
- (b) "Award" means any award of an Option, SAR, Stock Grant or Stock Unit under the Plan.
- (c) "Board" means the Board of Directors of the Company, as constituted from time to time.
- (d) "Cashless Exercise" means, to the extent that a Stock Option Agreement so provides and as permitted by applicable law, a program approved by the Committee in which payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price and, if

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applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates, including, but not limited to, U.S. federal and state income taxes, payroll taxes, and foreign taxes, if applicable.

(e) "Cause" means, except as may otherwise be provided in a Participant's employment agreement or Award agreement, a conviction of a Participant for a felony crime or the failure of a Participant to contest prosecution for a felony crime, or a Participant's misconduct, fraud or dishonesty (as such terms are defined by the Committee in its sole discretion), or any unauthorized use or disclosure of confidential information or trade secrets, in each case as determined by the Committee, and the Committee's determination shall be conclusive and binding.

(f) "Change In Control" except as may otherwise be provided in a Participant's employment agreement or Award agreement, means the occurrence of any of the following:

(i) A change in the composition of the Board over a period of thirty-six consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination; or

(ii) The acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing more than 35% of the total combined voting power of the Company's then outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which the Board does not recommend such shareholders accept.

- (g) “Code” means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.
- (h) “Committee” means a committee described in Section 3.
- (i) “Common Stock” means the Company’s common stock.
- (j) “Company” means Cisco Systems, Inc., a California corporation.
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(k) "Consultant" means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate, other than as an Employee or Director or Non-Employee Director.

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(l) "Corporate Transaction" except as may otherwise be provided in a Participant's employment agreement or Award agreement, means the occurrence of any of the following shareholder approved transactions:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not shareholders of the Company immediately prior to such merger, consolidation or other reorganization; or

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets.

A transaction shall not constitute a Corporate Transaction if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transactions.

(m) "Covered Employees" means those persons who are subject to the limitations of Code Section 162(m).

(n) "Director" means a member of the Board who is also an Employee.

(o) "Disability" means that the Key Employee is classified as disabled under a long-term disability policy of the Company or, if no such policy applies, the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(p) "Employee" means an individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Exercise Price" means, in the case of an Option, the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value in determining the amount payable upon exercise of such SAR.

(s) "Fair Market Value" means the market price of a Share as determined in good faith by the Committee. The Fair Market Value shall be determined by the following:

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(i) If the Shares were traded over-the-counter or listed with NASDAQ on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted by the NASDAQ system for the date in question or (ii) if the Common Stock is listed on the New York Stock Exchange or the American Stock Exchange on the date in question, the Fair Market Value is the closing selling price for the Common Stock as such price is officially quoted in the composite tape of transactions on the exchange determined by the Committee to be the primary market for the Common Stock for the date in question; provided, however, that if there is no such reported price for the Common Stock for the date in question under (i) or (ii), then such price on the last preceding date for which such price exists shall be determinative of Fair Market Value.

If neither (i) or (ii) are applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Western Edition of The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

(t) "Fiscal Year" means the Company's fiscal year.

(u) "Grant" means any grant of an Award under the Plan.

(v) "Incentive Stock Option" or "ISO" means an incentive stock option described in Code Section 422.

(w) "Key Employee" means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.

(x) "Non-Employee Director" means a member of the Board who is not an Employee.

(y) "Nonstatutory Stock Option" or "NSO" means a stock option that is not an ISO.

(z) "Option" means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.



(aa) "Optionee" means an individual, estate or other entity that holds an Option.

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(bb) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(cc) "Participant" means an individual or estate or other entity that holds an Award.

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(dd) "Performance Goal" means an objective formula or standard determined by the Committee with respect to each Performance Period utilizing one or more of the following factors and any objectively verifiable adjustment(s) thereto permitted and preestablished by the Committee in accordance with Code Section 162(m): (i) operating income; (ii) earnings before interest, taxes, depreciation and amortization; (iii) earnings; (iv) cash flow; (v) market share; (vi) sales; (vii) revenue; (viii) profits before interest and taxes; (ix) expenses; (x) cost of goods sold; (xi) profit/loss or profit margin; (xii) working capital; (xiii) return on capital, equity or assets; (xiv) earnings per share; (xv) economic value added; (xvi) stock price; (xvii) price/earnings ratio; (xviii) debt or debt-to-equity; (xix) accounts receivable; (xx) writeoffs; (xxi) cash; (xxii) assets; (xxiii) liquidity; (xxiv) operations; (xxv) intellectual property (e.g., patents); (xxvi) product development; (xxvii) regulatory activity; (xxviii) manufacturing, production or inventory; (xxix) mergers and acquisitions or divestitures; (xxx) financings; and/or (xxxi) customer satisfaction, each with respect to the Company and/or one or more of its affiliates or operating units. Awards issued to persons who are not Covered Employees may take into account other factors (including subjective factors).

(ee) "Performance Period" means any period not exceeding 36 months as determined by the Committee, in its sole discretion. The Committee may establish different Performance Periods for different Participants, and the Committee may establish concurrent or overlapping Performance Periods.

(ff) "Plan" means this Cisco Systems, Inc. 2005 Stock Incentive Plan as amended and restated, and as it may be further amended from time to time.

(gg) "Previous Plan Award" means any award of an Option, SAR, Stock Grant or Stock Unit under the Cisco Systems, Inc. 1996 Stock Incentive Plan, the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan or the Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan.

(hh) "Re-Price" means that the Company has lowered or reduced the Exercise Price of outstanding Options and/or outstanding SARs for any Participant(s), whether through amendment, cancellation, or replacement grants, or any other means.

(ii) "SAR Agreement" means the agreement described in Section 8 evidencing each Award of a Stock Appreciation Right.

(jj) "SEC" means the Securities and Exchange Commission.

(kk) "Section 16 Persons" means those officers, directors or other persons who are subject to Section 16 of the Exchange Act.

(ll) "Securities Act" means the Securities Act of 1933, as amended.

(mm) "Service" means service as an Employee, Director, Non-Employee Director or Consultant. A Participant's Service does not terminate when continued service crediting

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is required by applicable law. However, for purposes of determining whether an Option is entitled to continuing ISO status, a common-law employee's Service will be treated as terminating ninety (90) days after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Committee determines which leaves count toward Service, and when Service terminates for all purposes under the Plan. Further, unless otherwise determined by the Committee, a Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant provides service to the Company, a Parent, Subsidiary or Affiliate, or a transfer between entities (the Company or any Parent, Subsidiary, or Affiliate); provided that there is no interruption or other termination of Service.

(nn) "Share" means one share of Common Stock.

(oo) "Stock Appreciation Right" or "SAR" means a stock appreciation right awarded under the Plan.

(pp) "Stock Grant" means Shares awarded under the Plan.

(qq) "Stock Grant Agreement" means the agreement described in Section 9 evidencing each Award of a Stock Grant.

(rr) "Stock Option Agreement" means the agreement described in Section 6 evidencing each Award of an Option.

(ss) "Stock Unit" means a bookkeeping entry representing the equivalent of one Share, as awarded under the Plan.

(tt) "Stock Unit Agreement" means the agreement described in Section 10 evidencing each Award of a Stock Unit.

(uu) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined

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voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(vv) "10-Percent Shareholder" means an individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.

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### **SECTION 3. ADMINISTRATION .**

(a) **Committee Composition.** The Board or a Committee appointed by the Board shall administer the Plan. Unless the Board provides otherwise, the Company's Compensation & Management Development Committee shall be the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

The Committee shall have membership composition which enables (i) Awards to Section 16 Persons to qualify as exempt from liability under Section 16(b) of the Exchange Act and (ii) Awards to Covered Employees to qualify as performance-based compensation as provided under Code Section 162(m).

The Board may also appoint one or more separate committees of the Board, each composed of two or more directors of the Company who need not qualify under Rule 16b-3 or Code Section 162(m), that may administer the Plan with respect to Key Employees who are not Section 16 Persons or Covered Employees, respectively, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

Notwithstanding the foregoing, the Board shall constitute the Committee and shall administer the Plan with respect to Non-Employee Directors, shall grant Awards under the Plan to such Non-Employee Directors, and shall determine all terms of such Awards.

(b) **Authority of the Committee.** Subject to the provisions of the Plan, the Committee shall have full authority and sole discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

- (i) selecting Key Employees who are to receive Awards under the Plan;
- (ii) determining the type, number, vesting requirements and other features and conditions of such Awards and amending such Awards;
- (iii) correcting any defect, supplying any omission, or reconciling any inconsistency in the Plan or any Award agreement;
- (iv) accelerating the vesting, or extending the post-termination exercise term, of Awards at any time and under such terms and conditions as it deems appropriate;
- (v) interpreting the Plan;
- (vi) making all other decisions relating to the operation of the Plan; and
- (vii) adopting such plans or subplans as may be deemed necessary or appropriate to provide for the participation by Key Employees of the Company and its Subsidiaries and Affiliates who reside outside the U.S., which plans and/or subplans shall be attached hereto as Appendices.

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The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) **Indemnification.** To the maximum extent permitted by applicable law, each member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Stock Option Agreement, SAR Agreement, Stock Grant Agreement or Stock Unit Agreement, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the

Company's Articles of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

**SECTION 4. GENERAL .**

(a) General Eligibility. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee, in its sole discretion.

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(b) Incentive Stock Options. Only Key Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Shareholder shall not be eligible for the grant of an ISO unless the requirements set forth in Section 422(c)(5) of the Code are satisfied.

(c) Restrictions on Shares. Any Shares issued pursuant to an Award shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine, in its sole discretion. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law. In no event shall the Company be required to issue fractional Shares under this Plan.

(d) Beneficiaries. Unless stated otherwise in an Award agreement, a Participant may designate one or more beneficiaries with respect to an Award by timely filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Participant's death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then

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after a Participant's death any vested Award(s) shall be transferred or distributed to the Participant's estate.

(e) Performance Conditions. The Committee may, in its discretion, include performance conditions in an Award or grant an Award upon the satisfaction of performance conditions. If performance conditions are included in Awards to Covered Employees, then such Awards may be subject to the achievement of Performance Goals established by the Committee. Such Performance Goals shall be established and administered pursuant to the requirements of Code Section 162(m). Before any Shares underlying an Award or any Award payments subject to Performance Goals are released to a Covered Employee with respect to a Performance Period, the Committee shall certify in writing that the Performance Goals for such Performance Period have been satisfied. Awards with performance conditions that are granted to Key Employees who are not Covered Employees need not comply with the requirements of Code Section 162(m).

(f) No Rights as a Shareholder. A Participant, or a transferee of a Participant, shall have no rights as a shareholder with respect to any Common Stock covered by an Award until such person has satisfied all of the terms and conditions to receive such Common Stock, has satisfied any applicable withholding or tax obligations relating to the Award and the Shares have been issued (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company).

(g) Termination of Service. Unless the applicable Award agreement or, with respect to Participants who reside in the U.S., the applicable employment agreement provides otherwise, the following rules shall govern the vesting, exercisability and term of outstanding Awards held by a Participant in the event of termination of such Participant's Service (in all cases subject to the expiration term of the Option or SAR as applicable): (i) upon termination of Service for any reason, all unvested portions of any outstanding Awards shall be immediately forfeited without consideration and the vested portions of any outstanding Stock Units shall be settled upon termination; (ii) if the Service of a Participant is terminated for Cause, then all unexercised Options and SARs, unvested portions of Stock Units and unvested portions of Stock Grants shall terminate and be forfeited immediately without consideration; (iii) if the Service of a Participant is terminated for any reason other than for Cause, death, or Disability, then the vested portion of his or her then-outstanding Options and/or SARs may be exercised by such Participant or his or her personal representative within three months after the date of such termination; or (iv) if the Service of a Participant is terminated due to death or Disability, the vested portion of his or her then-outstanding Options and/or SARs may be exercised within eighteen months after the date of termination of Service.

(h) Director Fees. Each Non-Employee Director may elect to receive a Stock Grant or Stock Unit under the Plan in lieu of payment of a portion of his or her regular annual retainer based on the Fair Market Value of the Shares on the date any regular annual retainer would otherwise be paid. For purposes of the Plan, a Non-Employee Director's regular annual retainer shall not include any additional retainer paid in connection with service on any committee of the Board or paid for any other reason. Such an election

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may be for any dollar or percentage amount equal to at least 25% of the Non-Employee Director's regular annual retainer (up to a limit of 100% of the Non-Employee Director's regular annual retainer). The election must be made prior to the beginning of the annual board of directors cycle which shall be any twelve month continuous period designated by the Board. Any amount of the regular annual retainer not elected to be received as a Stock Grant or Stock Unit shall be payable in cash in accordance with the Company's standard payment procedures. Shares granted under this Section 4(h) shall otherwise be subject to the terms of the Plan applicable to Non-Employee Directors or to Participants generally (other than provisions specifically applying only to Employees).

## **SECTION 5. SHARES SUBJECT TO PLAN AND SHARE LIMITS .**

(a) Basic Limitations. The stock issuable under the Plan shall be authorized but unissued Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 559,000,000 Shares, subject to adjustment pursuant to Section 11. Shares issued as Stock Grants or pursuant to Stock Units will count against the Shares available for issuance under the Plan as 1.5 Shares for every 1 Share issued in connection with the Award.

(b) Additional Shares. If Awards are forfeited or are terminated for any other reason before being exercised or settled, then the Shares underlying such Awards, plus the number of additional Shares, if any, that counted against Shares available for issuance under the Plan in

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respect thereof at the time of Grant, shall again become available for Awards under the Plan. If a Previous Plan Award is forfeited or is terminated for any other reason before being exercised or settled, then the Shares underlying such Previous Plan Award shall again become available for Awards under this Plan. SARs shall be counted in full against the number of Shares available for issuance under the Plan, regardless of the number of Shares issued upon settlement of the SARs.

(c) Dividend Equivalents. Any dividend equivalents distributed under the Plan shall not be applied against the number of Shares available for Awards.

(d) Share Limits.

(i) **Limits on Options** . Subject to adjustment pursuant to Section 11, no Key Employee shall receive Options to purchase Shares during any Fiscal Year covering in excess of 5,000,000 Shares and the aggregate maximum number of Shares that may be issued in connection with ISOs shall be 559,000,000 Shares.

(ii) **Limits on SARs**. Subject to adjustment pursuant to Section 11, no Key Employee shall receive Awards of SARs during any Fiscal Year covering in excess of 5,000,000 Shares and the aggregate maximum number of Shares that may be issued in connection with SARs shall be 559,000,000 Shares.

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(iii) **Limits on Stock Grants and Stock Units**. Subject to adjustment pursuant to Section 11, no Key Employee shall receive Stock Grants or Stock Units during any Fiscal Year covering, in the aggregate, in excess of 5,000,000 Shares.

(iv) **Limits on Awards to Non-Employee Directors**. Subject to adjustment pursuant to Section 11, no Non-Employee Director shall receive Awards during any Fiscal Year covering, in the aggregate, in excess of 50,000 Shares; provided that any Shares received pursuant to an election under Section 4(h) shall not count against such limit.

## **SECTION 6. TERMS AND CONDITIONS OF OPTIONS .**

(a) Stock Option Agreement. Each Grant of an Option under the Plan shall be evidenced and governed exclusively by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement (including without limitation any performance conditions). The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall be subject to adjustment of such number in accordance with Section 11.

(c) Exercise Price. An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. The Exercise Price of an Option shall not be less than 100% of the Fair Market Value (110% for ISO grants to 10-Percent Shareholders) on the date of Grant.

(d) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an Option shall in no event exceed ten years from the date of Grant. Unless the applicable Stock Option Agreement provides otherwise, each Option shall vest and become exercisable with respect to 20% of the Shares subject to the Option upon completion of one year of Service measured from the vesting commencement date, the balance of the Shares subject to the Option shall vest and become exercisable in forty-eight equal installments upon completion of each month of Service thereafter, and the term of the Option shall be ten years from the date of Grant. A Stock Option Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events. Notwithstanding any other provision of the Plan, no Option can be exercised after the expiration date provided in the applicable Stock Option Agreement and no Option may provide that, upon exercise of the Option, a new Option will automatically be granted.

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(e) Modifications or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of Shares, at the same or a different Exercise Price, and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not Re-Price outstanding Options unless there is approval by the Company shareholders and, unless a modification is necessary or desirable to comply with any applicable law, regulation or rule, such modification of an Option shall not, without the consent of the Optionee, impair his or her rights or obligations under such Option.



(f) Assignment or Transfer of Options. Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, no Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Optionee only by the Optionee or by the guardian or legal representative of the Optionee. No Option or interest therein may be

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assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

#### **SECTION 7. PAYMENT FOR OPTION SHARES .**

The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows and if so provided for in an applicable Stock Option Agreement:

(i) Surrender of Stock. Payment for all or any part of the Exercise Price or Options may be made with Shares which have already been owned by the Optionee; provided that the Committee may, in its sole discretion, require that Shares tendered for payment be previously held by the Optionee for a minimum duration. Such Shares shall be valued at their Fair Market Value.

(ii) Cashless Exercise. Payment for all or any part of the Exercise Price may be made through Cashless Exercise at the Committee's sole discretion.

(iii) Other Forms of Payment. Payment for all or any part of the Exercise Price may be made in any other form that is consistent with applicable laws, regulations and rules and approved by the Committee.

In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this

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Section 7. In the case of an NSO granted under the Plan, the Committee may, in its discretion at any time, accept payment in any form(s) described in this Section 7.

#### **SECTION 8. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS .**

(a) SAR Agreement. Each Grant of a SAR under the Plan shall be evidenced and governed exclusively by a SAR Agreement between the Participant and the Company. Such SAR shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a SAR Agreement (including without limitation any performance conditions). A SAR Agreement may provide for a maximum limit on the amount of any payout notwithstanding the Fair Market Value on the date of exercise of the SAR. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Participant's compensation.

(b) Number of Shares. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall be subject to adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each SAR Agreement shall specify the Exercise Price which shall be established by the Committee. The Exercise Price of a SAR shall not be less than 100% of the Fair Market Value on the date of Grant.

(d) Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR which shall not exceed ten years from the date of Grant. Unless the applicable SAR Agreement provides otherwise, each SAR shall vest and become exercisable with respect to 20% of the Shares subject to the SAR upon completion of one year of Service measured from the vesting commencement date, the balance of the Shares subject to the SAR shall vest and become exercisable in forty-eight equal installments upon completion of each month of Service thereafter, and the term of the SAR shall be ten years from the date of Grant. A SAR Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events. SARs may be awarded in combination with Options or Stock Grants, and such an Award shall provide that the SARs will not be exercisable unless the related Options or Stock Grants are forfeited. A SAR may be included in an ISO only at the time of Grant but may be included in an NSO at the time of Grant or at any subsequent time, but not later than six months before the expiration of such NSO. No SAR may provide that, upon exercise of the SAR, a new SAR will automatically be granted.

(e) Exercise of SARs. If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. Upon exercise of a SAR, the

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Participant (or any person having the right to exercise the SAR) shall receive from the Company (i) Shares, (ii) cash or (iii) any combination of Shares and cash, as the Committee shall determine at the time of Grant of the SAR, in its sole discretion. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the

amount by which the Fair Market Value (on the date of exercise) of the Shares subject to the SARs exceeds the Exercise Price of those Shares.

(f) Modification or Assumption of SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding stock appreciation rights or may accept the cancellation of outstanding stock appreciation rights (including stock appreciation rights granted by another issuer) in return for the grant of new SARs for the same or a different number of Shares, at the same or a different

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Exercise Price, and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not Re-Price outstanding SARs unless there is approval by the Company shareholders and, unless a modification is necessary or desirable to comply with any applicable law, regulation or rule, such modification of a SAR shall not, without the consent of the Participant, impair his or her rights or obligations under such SAR.

(g) Assignment or Transfer of SARs. Except as otherwise provided in the applicable SAR Agreement and then only to the extent permitted by applicable law, no SAR shall be transferable by the Participant other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable SAR Agreement, a SAR may be exercised during the lifetime of the Participant only by the Participant or by the guardian or legal representative of the Participant. No SAR or interest therein may be assigned, pledged or hypothecated by the Participant during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

## **SECTION 9. TERMS AND CONDITIONS FOR STOCK GRANTS .**

(a) Amount and Form of Awards. Awards under this Section 9 may be granted in the form of a Stock Grant. Each Stock Grant Agreement shall specify the number of Shares to which the Stock Grant pertains and shall be subject to adjustment of such number in accordance with Section 11. A Stock Grant may also be awarded in combination with NSOs, and such an Award may provide that the Stock Grant will be forfeited in the event that the related NSOs are exercised.

(b) Stock Grant Agreement. Each Stock Grant awarded under the Plan shall be evidenced and governed exclusively by a Stock Grant Agreement between the Participant and the Company. Each Stock Grant shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Stock Grant Agreement (including without limitation any performance

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conditions). The provisions of the various Stock Grant Agreements entered into under the Plan need not be identical.

(c) Payment for Stock Grants. Stock Grants may be issued with or without cash consideration or any other form of legally permissible consideration approved by the Committee.

(d) Vesting Conditions. Each Stock Grant may or may not be subject to vesting. Any such vesting provision may provide that Shares shall vest based on Service over time or shall vest, in full or in installments, upon satisfaction of performance conditions specified in the Stock Grant Agreement which may include Performance Goals pursuant to Section 4(e). Unless the applicable Stock Grant Agreement provides otherwise, each Stock Grant shall vest with respect to 20% of the Shares subject to the Stock Grant upon completion of each year of Service on each of the first through fifth annual anniversaries of the vesting commencement date. A Stock Grant Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Assignment or Transfer of Stock Grants. Except as provided in the applicable Stock Grant Agreement, and then only to the extent permitted by applicable law, a Stock Grant awarded under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 9(e) shall be void. However, this Section 9(e) shall not preclude a Participant from designating a beneficiary who will receive any vested outstanding Stock Grant Awards in the event of the Participant's death, nor shall it preclude a transfer of vested Stock Grant Awards by will or by the laws of descent and distribution.

(f) Voting and Dividend Rights. The holder of a Stock Grant awarded under the Plan shall have the same voting, dividend and other rights as the Company's other shareholders. A Stock Grant Agreement, however, may require that the holder of such Stock Grant invest any cash dividends received in additional Shares subject to the Stock Grant. Such additional Shares subject to the Stock Grant shall be subject to the same conditions and restrictions as the Stock Grant with respect to which the dividends were paid. Such additional Shares subject to the Stock Grant shall not reduce the number of Shares available for issuance under Section 5.

(g) Modification or Assumption of Stock Grants. Within the limitations of the Plan, the Committee may modify or assume outstanding stock grants or may accept the cancellation of outstanding stock grants (including stock granted by another issuer) in return for the grant of new Stock Grants for the same or a different number of Shares and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not modify an outstanding Stock Grant such that the modification shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Grant, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule.

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**SECTION 10. TERMS AND CONDITIONS OF STOCK UNITS .**

(a) Stock Unit Agreement. Each grant of Stock Units under the Plan shall be evidenced and governed exclusively by a Stock Unit Agreement between the Participant and the Company. Such Stock Units shall be subject to all applicable terms and conditions of the Plan

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and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Stock Unit Agreement (including without limitation any performance conditions). The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the Participant's other compensation.

(b) Number of Shares. Each Stock Unit Agreement shall specify the number of Shares to which the Stock Unit Grant pertains and shall be subject to adjustment of such number in accordance with Section 11.

(c) Payment for Stock Units. Stock Units shall be issued without consideration.

(d) Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Any such vesting provision may provide that Shares shall vest based on Service over time or shall vest, in full or in installments, upon satisfaction of performance conditions specified in the Stock Unit Agreement which may include Performance Goals pursuant to Section 4(e). Unless the applicable Stock Unit Agreement provides otherwise, each Stock Unit shall vest with respect to 20% of the Shares subject to the Stock Unit upon completion of each year of Service on each of the first through fifth annual anniversaries of the vesting commencement date. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

(f) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee at the time of the grant of the Stock Units, in its sole discretion. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when the vesting conditions applicable to the Stock Units have been

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satisfied or have lapsed, or it may be deferred, in accordance with applicable law, to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 11.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

(h) Modification or Assumption of Stock Units. Within the limitations of the Plan, the Committee may modify or assume outstanding stock units or may accept the cancellation of outstanding stock units (including stock units granted by another issuer) in return for the grant of new Stock Units for the same or a different number of Shares and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not modify an outstanding Stock Unit such that the modification shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Unit, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule.

(i) Assignment or Transfer of Stock Units. Except as provided in the applicable Stock Unit Agreement, and then only to the extent permitted by applicable law, Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 10(i) shall be void. However, this Section 10(i) shall not preclude a Participant from designating a beneficiary who will receive any outstanding vested Stock Units in the event of the Participant's death, nor shall it preclude a transfer of vested Stock Units by will or by the laws of descent and distribution.

## **SECTION 11. PROTECTION AGAINST DILUTION .**

(a) Adjustments. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make appropriate adjustments to the following:

(i) the number of Shares and the kind of shares or securities available for future Awards under Section 5;

(ii) the limits on Awards specified in Section 5;

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(iii) the number of Shares and the kind of shares or securities covered by each outstanding Award; or

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(iv) the Exercise Price under each outstanding SAR or Option.

(b) Participant Rights. Except as provided in this Section 11, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class. If by reason of an adjustment pursuant to this Section 11 a Participant's Award covers additional or different shares of stock or securities, then such additional or different shares and the Award in respect thereof shall be subject to all of the terms, conditions and restrictions which were applicable to the Award and the Shares subject to the Award prior to such adjustment.

(c) Fractional Shares. Any adjustment of Shares pursuant to this Section 11 shall be rounded down to the nearest whole number of Shares. Under no circumstances shall the Company be required to authorize or issue fractional shares and no consideration shall be provided as a result of any fractional shares not being issued or authorized.

## **SECTION 12. EFFECT OF A CORPORATE TRANSACTION .**

(a) Corporate Transaction. In the event that the Company is a party to a Corporate Transaction, outstanding Awards shall be subject to the applicable agreement of merger, reorganization, or sale of assets. Such agreement may provide, without limitation, for the assumption or substitution of outstanding Options, SARs, or Stock Units by the surviving corporation or its parent, for the assumption of outstanding Stock Grant Agreements by the surviving corporation or its parent, for the replacement of outstanding Options, SARs, and Stock Units with a cash incentive program of the surviving corporation which preserves the spread existing on the unvested portions of such outstanding Awards at the time of the transaction and provides for subsequent payout in accordance with the same vesting provisions applicable to those Awards, for accelerated vesting of outstanding Awards, or for the cancellation of outstanding Options, SARs, and Stock Units, with or without consideration, in all cases without the consent of the Participant.

(b) Acceleration. The Committee may determine, at the time of grant of an Award or thereafter, that such Award shall become fully vested as to all Shares subject to such Award in the event that a Corporate Transaction or a Change in Control occurs. Unless otherwise provided in the applicable Award agreement, in the event that a Corporate Transaction occurs and any outstanding Options, SARs or Stock Units are not assumed, substituted, or replaced with a cash incentive program pursuant to Section 12(a) or any outstanding Stock Grant Agreements are not assumed pursuant to Section 12(a), then such Awards shall fully vest and be fully exercisable immediately prior to such Corporate Transaction. Immediately following the consummation of a Corporate Transaction, all

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outstanding Options, SARs and Stock Units shall terminate and cease to be outstanding, except to the extent that they are assumed by the surviving corporation or its parent.

(c) Dissolution. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

## **SECTION 13. LIMITATIONS ON RIGHTS .**

(a) No Entitlements. A Participant's rights, if any, in respect of or in connection with any Award is derived solely from the discretionary decision of the Company to permit the individual to participate in the Plan and to benefit from a discretionary Award. By accepting an Award under the Plan, a Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards. Any Award granted hereunder is not intended to be compensation of a continuing or recurring nature, or part of a Participant's normal or expected compensation, and in no way represents any portion of a Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and such terminated person shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(b) Shareholders' Rights. A Participant shall have no dividend rights, voting rights or other rights as a shareholder with respect to any Shares covered by his or her Award prior to the issuance of such Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company). No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such Shares are issued, except as expressly provided in Section 11.



(c) Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares or other securities under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares or other securities pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares or other securities, to

their registration, qualification or listing or to an exemption from registration, qualification or listing.

**SECTION 14. WITHHOLDING TAXES .**

(a) General. A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with his or her Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) Share Withholding. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering or attesting to all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued based on the value of the actual trade or, if there is none, the Fair Market Value as of the previous day. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including, but not limited to, any restrictions required by rules of the SEC. The Committee may, in its discretion, also permit a Participant to satisfy withholding or income tax obligations related to an Award through Cashless Exercise or through a sale of Shares underlying the Award.

**SECTION 15. DURATION AND AMENDMENTS .**

(a) Term of the Plan. The Plan shall become effective upon its approval by Company shareholders. The Plan shall terminate at the Company's 2012 Annual Meeting of Shareholders and may be terminated on any earlier date pursuant to this Section 15.

(b) Right to Amend or Terminate the Plan. The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not impair the rights or obligations of any Participant under any Award previously granted under the Plan without the Participant's consent, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's shareholders only to the extent such approval is otherwise required by applicable laws, regulations or rules.

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**SECTION 16. EXECUTION.**

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this Plan on behalf of the Company.

**CISCO  
SYSTEMS, INC.**

By: \_\_\_\_\_

Mark  
Chandler

Title: Senior Vice  
President,  
Legal  
Services,  
General  
Counsel  
and  
Secretary

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(For Grants Prior to September 2008)

**CISCO SYSTEMS, INC.**  
**NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Type of Option:    \_\_\_ Incentive Stock Option  
                          \_\_\_ Nonstatutory Stock Option

Grant Number: \_\_\_\_\_

Number of Option Shares: \_\_\_\_\_ shares

Exercise Price: \$ \_\_\_\_\_ per share

Vesting Commencement Date: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

**Exercise Schedule**

The Option shall vest and become exercisable with respect to (i) twenty percent (20%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and (ii) the balance of the Option Shares in a series of forty-eight (48) successive equal monthly installments upon Optionee's completion of each additional month of Service over the forty-eight (48)-month period measured from the first annual anniversary of the Vesting Commencement Date. In no event shall the Option vest and become exercisable for any additional Option Shares after Optionee's cessation of Service.

Should Optionee request a reduction to his or her work commitment to less than thirty (30) hours per week, then the Committee shall have the right, to extend the period over which the Option shall thereafter vest and become exercisable for the Option Shares during the remainder of the Option term. The decision whether or not to approve Optionee's request for any reduced work commitment shall be at the sole discretion of the Company. In no event shall any extension of the Exercise Schedule for the Option Shares result in the extension of the Expiration Date of the Option.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

**No Employment or Service Contract** . Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

**Definitions** . All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

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## **STOCK OPTION AGREEMENT**

### **Recitals**

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

**NOW, THEREFORE** , it is hereby agreed as follows:

**1. Grant of Option** . The Company hereby grants to Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

**2. Option Term** . This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5 or 6.

**3. Non-Transferability** . This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

**4. Dates of Exercise** . This Option shall vest and become exercisable for the Option Shares in one or more installments as specified in the Notice. As the Option becomes exercisable for such installments, those installments shall accumulate and the Option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the Option term under Paragraph 5 or 6. As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5 or 6 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in Service as provided in Paragraph 5(i) and the date three (3) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

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**5. Cessation of Service** . The Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

- (i) Should Optionee cease to remain in Service for any reason (other than death, Disability or Cause) while this Option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.
- (ii) If Optionee dies while this Option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option. Such right shall lapse, and this Option shall cease to be outstanding, upon the earlier of (A) the expiration of the eighteen (18)- month period measured from the date of Optionee's death or (B) the Expiration Date.
- (iii) Should Optionee cease Service by reason of Disability while this Option is outstanding, then Optionee shall have a period of eighteen (18) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.
- (iv) Optionee's date of cessation of Service shall mean the date upon which Optionee ceases active performance of services for the Company following the provision of such notification of termination or resignation from Service and shall be determined solely by this Agreement and without reference to any other agreement, written or oral, including Optionee's contract of employment, and shall not otherwise include any period of notice of termination of employment, whether expressed or implied.
- (v) During the limited period of post-Service exercisability, this Option may not be exercised in the aggregate for more than the number of vested Option Shares for which the Option is exercisable at the time of Optionee's cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this Option shall terminate and cease to be outstanding for any vested Option Shares for which the Option has not been exercised. However, this Option shall, immediately upon Optionee's cessation of Service for any reason, terminate and cease to be outstanding with respect to any Option Shares in which Optionee is not otherwise at that time vested or for which this Option is not otherwise at that time exercisable.
- (vi) Should Optionee's Service be terminated for Cause or should Optionee otherwise engage in activities constituting Cause while this Option is outstanding, then this Option shall terminate immediately and cease to remain outstanding. In the event Optionee's Service with the Company is suspended pending an investigation of whether Optionee's Service will be terminated for Cause, all Optionee's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

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## **6. Special Acceleration of Option**

(a) This Option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Corporate Transaction, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. No such acceleration of this Option, however, shall occur if and to the extent: (i) this Option is, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) or (ii) this Option is replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such Shares) and provides for subsequent pay-out in accordance with the same Exercise Schedule set forth in the Notice. The determination of option comparability under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Option is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by the Option and the Exercise Price immediately after such Corporate Transaction, provided the aggregate Exercise Price shall remain the same.

(d) This Option, to the extent outstanding at the time of a Change in Control but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Change in Control, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. This Option shall remain so exercisable until the Expiration Date or sooner termination of the Option term.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

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**7. Adjustment in Option Shares** . In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

**8. Shareholder Rights** . The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

**9. Manner of Exercising Option** .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company;

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; and

(C) a promissory note payable to the Company, but only to the extent authorized by the Committee in accordance with Paragraph 13.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.



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(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

(d) Notwithstanding any other provisions of the Plan, this Agreement or any other agreement to the contrary, if at the time this Option is exercised, Optionee is indebted to the Company (or any Parent or Subsidiary) for any reason, the following actions shall be taken, as deemed appropriate by the Committee:

(i) any Shares to be issued upon such exercise shall automatically be pledged against Optionee's outstanding indebtedness; and

(ii) if this Option is exercised in accordance with subparagraph 9(a)(i)(B) above, the after tax proceeds of the sale of Optionee's Shares shall automatically be applied to the outstanding balance of Optionee's indebtedness.

#### **10. Compliance with Laws and Regulations**

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

**11. Successors and Assigns** . Except to the extent otherwise provided in Paragraphs 3 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

**12. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

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**13. Financing** . The Committee may, in its absolute discretion and without any obligation to do so, permit Optionee to pay the Exercise Price for the purchased Option Shares by delivering a full-recourse promissory note payable to the Company. The terms of any such promissory note (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Committee in its sole discretion.

**14. Construction** . The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

**15. Governing Law** . The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

**16. Excess Shares** . If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

**17. Additional Terms Applicable to an Incentive Stock Options** . In the event this Option is designated an Incentive Stock Option in the Notice, the following terms and conditions shall also apply to the Option:

(a) This Option shall cease to qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) this Option is exercised for one or more Option Shares: (A) more than three (3) months after the date Optionee ceases to be an Employee for any reason other than death or Disability or (B) more than twelve (12) months after the date Optionee ceases to be an Employee by reason of Disability.

(b) Even if this Option is designated as an Incentive Stock Option, if the Shares subject to this Option (and all other Incentive Stock Options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate Fair Market Value (determined for each Share as of the date of grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option in accordance all applicable laws, regulations and rules.

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**18. Leave of Absence** . Unless otherwise determined by the Committee, the following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

(a) The Exercise Schedule in effect under the Notice shall be frozen as of the first day of the authorized leave, and this Option shall not become exercisable for any additional installments of the Option Shares during the period Optionee remains on such leave.

(b) If the Option is designated as an Incentive Stock Option in the Notice and if the leave of absence continues for more than ninety (90) days, then this Option shall automatically convert to a Nonstatutory Stock Option at the end of the three (3)-month period measured from the ninety-first (91st) day of such leave, unless the Optionee's right to return to active work is guaranteed by law or by a contract.

(c) In no event shall this Option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Service prior to the Expiration Date of the Option term.

**19. Further Instruments** . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

**20. Authorization to Release Necessary Personal Information** .

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the fact and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Shares held and the details of all options or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing Optionee's participation in the Plan. Optionee understands that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the exercise of Options under the Plan or with whom Shares acquired upon exercise of this Option or cash from the sale of such shares may be deposited. Optionee acknowledges that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of Optionee's residence. Furthermore, Optionee acknowledges and understands that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein, by

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contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from the Option, and Optionee's ability to participate in the Plan.

**21. No Entitlement or Claims for Compensation .**

(a) Optionee's rights, if any, in respect of or in connection with this Option or any other Award is derived solely from the discretionary decision of the Company to permit Optionee to participate in the Plan and to benefit from a discretionary Award. By accepting this Option, Optionee expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to Optionee. This Option is not intended to be compensation of a continuing or recurring nature, or part of Optionee's normal or expected compensation, and in no way represents any portion of a Optionee's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee a right to remain an Employee, Consultant or director of the Company, a Parent or a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of Optionee at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and Optionee shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Option or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) Optionee agrees that the Company may require Options granted hereunder be exercised with, and the Option Shares held by, a broker designated by the Company. In addition, Optionee agrees that his or her rights hereunder shall be subject to set-off by the Company for any valid debts the Optionee owes to the Company.

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**CISCO SYSTEMS, INC.**  
**NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Type of Option: U.S. Nonstatutory Stock Option

Grant Number: \_\_\_\_\_

Number of Option Shares: \_\_\_\_\_ shares

Exercise Price: \$ \_\_\_\_\_ per share

First Vest Date: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

**Exercise Schedule** . So long as Optionee's Service continues, the Option shall vest and become exercisable with respect to (i) \_\_\_\_\_ percent ( \_\_ %) of the option shares, as set forth above (the "Option Shares") on the First Vest Date as set forth above and (ii) the balance of the Option Shares in \_\_\_\_\_ installments upon Optionee's completion of each additional \_\_\_\_\_ of Service over the \_\_\_\_\_ period measured from the \_\_\_\_\_ First Vest Date. In no event shall the Option vest and become exercisable for any additional Option Shares after Optionee's cessation of Service.

Should Optionee request a reduction to his or her work commitment to less than thirty (30) hours per week, then the Company shall have the right to extend the period over which the Option shall thereafter vest and become exercisable for the Option Shares during the remainder of the Option term to the extent permitted under local law. In no event shall any extension of the exercise schedule, as set forth above ("Exercise Schedule") for the Option Shares result in the extension of the expiration date, as set forth above, ("Expiration Date") of the Option.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement (the "Agreement") attached hereto.

**No Employment or Service Contract** . Nothing in this Notice or in the attached Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent, Subsidiary or Affiliate employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause to the extent permissible under local law.

**Definitions** . All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Agreement or the Plan.

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## STOCK OPTION AGREEMENT

### Recitals

- A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board and Consultants.
- B. Optionee is to render valuable services to the Company (or a Parent, Subsidiary or Affiliate), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.
- C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

**NOW, THEREFORE** , it is hereby agreed as follows:

- 1. Grant of Option** . The Company hereby grants to Optionee, as of the grant date, as set forth in the Notice, (the "Grant Date") an option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.
- 2. Option Term** . This Option shall have a maximum term of \_\_\_\_\_ years [not to exceed ten (10) years] measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5 or 6.
- 3. Non-Transferability** . This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.
- 4. Dates of Exercise** . This Option shall vest and become exercisable for the Option Shares in one or more installments as specified in the Notice. As the Option becomes exercisable for such installments, those installments shall accumulate and the Option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the Option term under Paragraph 5 or 6. As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5 or 6 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in Service as provided in Paragraph 5(i) and the date three (3) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4:00 p.m. Eastern Daylight Time on Friday, July 1.

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**5. Cessation of Service** . The Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

(i) Should Optionee cease to remain in Service for any reason (other than death, Disability or Cause and whether or not in breach of local labor laws) while this Option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.

(ii) If Optionee dies while this Option is outstanding, then the Optionee's designated beneficiary or, if no beneficiary was designated or properly designated or, if no designated beneficiary survives the Optionee, the Optionee's estate (to the extent reasonably determinable) or other individual or entity entitled to receive the Option under applicable local law shall have the right to exercise this Option. Such right shall lapse, and this Option shall cease to be outstanding, upon the earlier of (A) the expiration of the eighteen (18) month period measured from the date of Optionee's death or (B) the Expiration Date. Optionee may only make a beneficiary designation with respect to this Option if the Company has approved a process or procedure for such beneficiary designation for the local jurisdiction within which Optionee performs services for the Company or a Parent, Subsidiary or Affiliate. If no such beneficiary designation process or procedure has been approved by the Company, then, in the event of Optionee's death, this Option may only be exercised by the Optionee's estate (to the extent reasonably determinable) or other individual or entity entitled to receive the Option under applicable local law.

(iii) Should Optionee cease Service by reason of Disability while this Option is outstanding, then Optionee shall have a period of eighteen (18) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.

(iv) During the limited period of post-Service exercisability, this Option may not be exercised in the aggregate for more than the number of vested Option Shares for which the Option is exercisable at the date the Optionee ceases to actively provide Service (not extended by any notice period mandated under local law). Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this Option shall terminate and cease to be outstanding for any vested Option Shares for which the Option has not been exercised. However, this Option shall, immediately as of the date the Optionee ceases to actively provide Service for any reason, terminate and cease to be outstanding with respect to any Option Shares in which Optionee is not otherwise at that time vested or for which this Option is not otherwise at that time exercisable.

(v) Should Optionee's Service be terminated for Cause or should Optionee otherwise engage in activities constituting Cause while this Option is

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outstanding, then this Option shall terminate immediately and cease to remain outstanding. In the event Optionee's Service is suspended pending an investigation of whether Optionee's Service will be terminated for Cause, all Optionee's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

(vi) For purposes of this Paragraph 5, in the event of Optionee's cessation of Service, Optionee's right to receive additional options or to vest in the Option will end as of the date the Optionee is no longer actively providing Service and will not be extended by any notice period mandated under local law ( e.g ., active Service would not include any period of "garden leave" or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when an Optionee is no longer actively providing Service for purposes of this Option.

#### **6. Special Acceleration of Option .**

(a) This Option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Corporate Transaction, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. No such acceleration of this Option, however, shall occur if and to the extent: (i) this Option is, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) or (ii) this Option is replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such Shares) and provides for subsequent pay-out in accordance with the same Exercise Schedule set forth in the Notice. The determination of option comparability under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Option is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by the Option and the Exercise Price immediately after such Corporate Transaction, provided the aggregate Exercise Price shall remain the same.

(d) This Option, to the extent outstanding at the time of a Change in Control but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Change in Control,



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become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. This Option shall remain so exercisable until the Expiration Date or sooner termination of the Option term.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

**7. Adjustment in Option Shares** . In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

**8. Shareholder Rights** . The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

**9. Manner of Exercising Option** .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's (or a Parent's, Subsidiary's or Affiliate's) withholding obligations

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(including income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax items related to Optionee's participation in the Plan and legally applicable to Optionee ("Tax-Related Items")) and (II) to the Company to deliver the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or a Parent, Subsidiary or Affiliate employing or retaining Optionee) for the satisfaction of all withholding or other obligations related to Tax-Related Items applicable to the Option grant, vesting, exercise or the sale of Shares, as applicable.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares, (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

(d) Notwithstanding any other provisions of the Plan, this Agreement or any other agreement to the contrary, if at the time this Option is exercised, Optionee is indebted to the Company (or any Parent, Subsidiary or Affiliate) for any reason, the following actions shall be taken, as deemed appropriate by the Committee:

(i) any Shares to be issued upon such exercise shall automatically be pledged against Optionee's outstanding indebtedness; and

(ii) if this Option is exercised in accordance with subparagraph 9(a)(i)(B) above, the after tax proceeds of the sale of Optionee's Shares shall automatically be applied to the outstanding balance of Optionee's indebtedness.

#### **10. Responsibility for Taxes**

(a) Optionee authorizes the Company and/or the Optionee's employer (the "Employer") or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding all applicable Tax-Related Items from Optionee's wages or other cash compensation paid to Optionee by the Company and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon exercise of the Option either through a voluntary sale (specifically including where this Option is exercised in accordance with subparagraph 9(a)(i)(B) above) or through a mandatory sale arranged by the Company (on Optionee's behalf pursuant to this authorization); or (3) withholding of Shares that would otherwise be issued upon exercise of the Option. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related

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Items by considering applicable minimum statutory withholding rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance. Finally, Optionee must pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Optionee's participation in the Plan or Optionee's purchase of Shares that cannot be satisfied by the means previously described. The Company may refuse to honor the exercise and refuse to issue or deliver the Shares or the proceeds of the sale of the Shares if Optionee fails to comply with Optionee's obligations in connection with the Tax-Related Items as described in this Paragraph.

(b) Regardless of any action the Company or the Employer takes with respect to any or all Tax-Related Items, Optionee acknowledges that the ultimate liability for all Tax-Related Items is and remains Optionee's responsibility and may exceed the amount actually withheld by the Company or the Employer. Optionee further acknowledges that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Optionee's liability for Tax-Related Items or achieve any particular tax result. Further, if Optionee becomes subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, Optionee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

#### **11. Compliance with Laws and Regulations**

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance and all applicable foreign laws.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained.

**12. Successors and Assigns** . Except to the extent otherwise provided in Paragraphs 3, 5 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

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**13. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**14. Construction** . The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

**15. Governing Law and Forum** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

**16. Excess Shares** . If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

**17. Leave of Absence** . Unless otherwise determined by the Committee, to the extent permitted by local law, the following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

(a) The Exercise Schedule in effect under the Notice shall be frozen as of the first day of the authorized leave, and this Option shall not become exercisable for any additional installments of the Option Shares during the period Optionee remains on such leave.

(b) In no event shall this Option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Service prior to the Expiration Date of the Option term.

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**18. Further Instruments** . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

**19. Authorization to Release and Transfer Necessary Personal Information** .

*(a) Optionee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Optionee's personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing Optionee's participation in the Plan.*

*(b) Optionee understands that the Company and the Employer may hold certain personal information about Optionee, including, but not limited to, Optionee's name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing the Optionee's participation in the Plan. Optionee understands that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in Optionee's country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than Optionee's country. Optionee understands that Optionee may request a list with the names and addresses of any potential recipients of the Data by contacting Optionee's local human resources representative. Optionee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing Optionee's participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of the Option under the Plan or with whom Shares acquired pursuant to these Options or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

*(c) Optionee understands that Data will be held only as long as is necessary to implement, administer and manage Optionee's participation in the Plan. Optionee understands that Optionee may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to vest in or realize benefits from the Options, and Optionee's ability to participate in the Plan. For*

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*more information on the consequences of Optionee's refusal to consent or withdrawal of consent, Optionee understands that Optionee may contact Optionee's local human resources representative.*

**20. No Entitlement or Claims for Compensation .**

(a) Optionee's rights, if any, in respect of or in connection with this Option or any other Award are derived solely from the discretionary decision of the Company to permit Optionee to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting this Option, Optionee expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to Optionee or benefits in lieu of Options or any other Awards even if Options have been granted repeatedly in the past. All decisions with respect to future Option grants, if any, will be at the sole discretion of the Committee.

(b) This Option and the Shares subject to the Option are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of Optionee's normal or expected compensation, and in no way represent any portion of Optionee's salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Option and the Shares subject to the Option are an extraordinary item that do not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which are outside the scope of Optionee's written employment agreement (if any).

(c) Optionee acknowledges that he or she is voluntarily participating in the Plan.

(d) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate the Service of Optionee at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any).

(e) The grant of the Option and Optionee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty. If the underlying Shares do not increase in value, the Option

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will have no value. If Optionee exercises the Option and obtains Shares, the value of the Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price. Optionee also understands that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between the Employer's local currency and the United States Dollar that may affect the value of this Option.

(g) In consideration of the grant of the Option, no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of Optionee's Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and Optionee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, Optionee shall be deemed irrevocably to have waived Optionee's entitlement to pursue such claim.

(h) Optionee agrees that the Company may require Options granted hereunder be exercised with, and the Option Shares held by, a broker designated by the Company.

(i) Optionee agrees that his or her rights hereunder (if any) shall be subject to set-off by the Company for any valid debts the Optionee owes to the Company.

(j) The Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

**21. No Advice Regarding Grant** . The Company and the Employer have not provided any tax, legal or financial advice, nor has the Company or the Employer made any recommendations regarding Optionee's participation in the Plan, or Optionee's acquisition or sale of the underlying Shares. Optionee is hereby advised to consult with Optionee's own personal tax, legal and financial advisors regarding Optionee's participation in the Plan before taking any action related to the Plan.

**22. Electronic Delivery** . The Company may, in its sole discretion, decide to deliver any documents related to Optionee's current or future participation in the Plan by electronic means or to request Optionee's consent to participate in the Plan by electronic means. Optionee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**23. Language** . If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

**24. Appendix** . Notwithstanding any provisions in this Agreement, the Option shall be subject to any special terms and conditions set forth in any Appendix to this

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Agreement for Optionee's country of residence. Moreover, if Optionee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Optionee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

**25. Imposition of Other Requirements** . The Company reserves the right to impose other requirements on Optionee's participation in the Plan, on the Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Optionee agrees to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, Optionee acknowledges that the laws of the country in which Optionee is working at the time of grant, vesting and exercise of the Option or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject Optionee to additional procedural or regulatory requirements that Optionee is and will be solely responsible for and must fulfill.



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**CISCO SYSTEMS, INC.**  
**STOCK GRANT AGREEMENT**

This Stock Grant Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Grant Award are as follows:

Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Shares: \_\_\_\_\_

First Vest Date: \_\_\_\_\_, 20\_\_ (the first annual anniversary of the vesting commencement date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

**1. Restricted Shares** . Pursuant to the Plan, the Company hereby transfers to you, and you hereby accept from the Company, a Stock Grant Award consisting of the Restricted Shares, on the terms and conditions set forth herein and in the Plan.

**2. Vesting of Restricted Shares** . So long as your Service continues, the Restricted Shares shall vest in accordance with the following schedule: \_\_\_\_\_ percent ( \_\_ %) of the total number of Restricted Shares issued pursuant to this Agreement shall vest on the First Vest Date and on each annual anniversary thereafter, unless otherwise provided by the Plan or Section 3 below. In the event of the termination of your Service for any reason, all unvested Restricted Shares shall be immediately forfeited without consideration. For purposes of facilitating the enforcement of the provisions of this Section 2, the Company may issue stop-transfer instructions on the Restricted Shares to the Company's transfer agent, or otherwise hold the Restricted Shares in escrow, until the Restricted Shares have vested and you have satisfied all applicable obligations with respect to the Restricted Shares, including any applicable tax withholding obligations set forth in Section 5 below. Any new, substituted or additional securities or other property which is issued or distributed with respect to the unvested Restricted Shares shall be subject to the same terms and conditions as are applicable to the unvested Restricted Shares under this Agreement and the Plan.

**3. Special Acceleration** .

(a) To the extent the Restricted Shares are outstanding at the time of a Corporate Transaction, but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Corporate Transaction and shall become vested in full at that time. No such acceleration, however, shall occur if

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and to the extent: (i) this Stock Grant Agreement is, in connection with the Corporate Transaction, assumed by the successor corporation (or parent thereof), or (ii) the Restricted Shares are replaced with a cash incentive program of the successor corporation which preserves the Fair Market Value of the Restricted Shares at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the vesting schedule set forth in Section 2 above.

(b) Immediately following the effective date of the Corporate Transaction, this Stock Grant Agreement shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Stock Grant Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by this Stock Grant Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Shares are outstanding at the time of a Change in Control but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time.

(e) This Stock Grant Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**4. Restriction on Election to Recognize Income in the Year of Grant** . Under Section 83 of the Code, the Fair Market Value of the Restricted Shares on the date the Restricted Shares vest will be taxable as ordinary income at that time. You understand, acknowledge and agree that, as a condition to the grant of this Award, you may not elect to be taxed at the time the Restricted Shares are acquired by filing an election under Section 83(b) of the Code with the Internal Revenue Service.

**5. Withholding Taxes** . You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable withholding tax obligations that arise in connection with the Restricted Shares which, at the sole discretion of the Company, may include (i) having the Company withhold Shares from the Restricted Shares held in escrow, or (ii) any other arrangement approved by the Company, in any case, equal in value to the amount necessary to satisfy any such withholding tax obligation. Such Shares shall be valued based on the Fair Market Value as of the day prior to the date that the amount of tax to be withheld is to be determined under applicable law. The Company shall not be required to release the Restricted Shares from the stop-transfer instructions or escrow unless and until such obligations are satisfied.

**6. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences.

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YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY STOCK GRANT AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

**7. Non-Transferability of Restricted Shares** . Restricted Shares which have not vested pursuant to Section 2 above shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by the operation of law. However, this Section 7 shall not preclude you from designating a beneficiary who will receive any vested Restricted Shares in the event of the your death, nor shall it preclude a transfer of vested Restricted Shares by will or by the laws of descent and distribution.

**8. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

**9. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Restricted Shares may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

**10. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Restricted Shares may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**11. Voting and Other Rights** . Subject to the terms of this Agreement, you shall have all the rights and privileges of a shareholder of the Company while the Restricted Shares are subject to stop-transfer instructions, or otherwise held in escrow, including the right to vote and to receive dividends (if any).

**12. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct your employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your employment, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or

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any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of this Stock Grant Award under the Plan or with whom Shares acquired pursuant to this Stock Grant Award or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from this Stock Grant Award, and your ability to participate in the Plan.

**13. No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with this Stock Grant Award or any other Award is derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting this Stock Grant Award, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. This Stock Grant Award is not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Stock Grant Award or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Stock Grant Award or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that the Company may require that Restricted Shares be held by a broker designated by the Company. In addition, you agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

**14. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**15. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by

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confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**16. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**17. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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**CISCO SYSTEMS, INC.**  
**PERFORMANCE-BASED STOCK UNIT AGREEMENT**

This Performance-Based Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Target Amount of  
Performance-Based  
Stock Units: \_\_\_\_\_

Vest Date: \_\_\_\_\_

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Performance-Based Stock Units** . Pursuant to the Plan, the Company hereby grants to you, [subject to the approval by the stockholders of the Company of the amendment and restatement of the Plan,] and you hereby accept from the Company, Performance-Based Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan. The Target Amount of Performance-Based Stock Units stated above reflects the target number of Performance-Based Stock Units (the "Target Amount"). The number of Performance-Based Stock Units ultimately paid out to you will range from \_\_\_\_\_ % to \_\_\_\_\_ % of the Target Amount as determined based upon the Company's performance during the performance period against the performance goals as set forth in Exhibit A .

2. **Vesting of Performance-Based Stock Units** . So long as your Service continues and subject to, and to the extent of, the satisfaction of the performance goals as set forth in Exhibit A , the Performance-Based Stock Units shall vest in accordance with the following schedule: \_\_\_\_\_ ( \_\_\_\_\_ %) of the total number of Performance-Based Stock Units earned, if any, pursuant to the satisfaction of the performance goals in Exhibit A shall vest on the Vest Date, unless otherwise provided by the Plan or Sections 3(b) or 4 below. If you take a leave of absence, the Company may, at its discretion and to the extent permitted under applicable local law, either suspend vesting during the period of leave or pro-rate the Performance-Based Stock Units, notwithstanding the Company's Vesting Policy for Leaves of Absence. Prior to the time

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that the Performance-Based Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Performance-Based Stock Units represent an unfunded and unsecured obligation of the Company.

**3. Termination of Service .**

(a) Except as otherwise provided in Section 3(b) below or Section 4, in the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Performance-Based Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Performance-Based Stock Units will terminate effective as of the date that you are no longer actively providing Service (or earlier upon your “Separation from Service” within the meaning of Code Section 409A) and will not be extended by any notice period mandated under local law ( e.g. , active Service would not include a period of “garden leave” or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Performance-Based Stock Units.

(b) In the event that you resign or your Service is terminated for any reason other than Cause on or after the date that (x) you have attained at least \_\_\_\_\_ ( \_\_\_\_\_ ) years of age and (y) your age plus your years of Service is at least equal to \_\_\_\_\_ ( \_\_\_\_\_ ), and so long as such resignation or the termination of your Service occurs no earlier than the \_\_\_\_\_ anniversary of the Grant Date (the satisfaction of the aforementioned conditions is referred to herein as “Retirement”<sup>1</sup> ), all unvested Performance-Based Stock Units may be earned pursuant to the satisfaction of the performance goals in Exhibit A , and shall vest in accordance with the vesting schedule set forth in Section 2 above, determined as if your Service had continued after your resignation or termination of Service, and shall be settled in accordance with Section 5(a); provided that any unsettled or unvested Performance-Based Stock Units shall be forfeited without consideration immediately upon the breach of any of the following conditions:

(i) Unless prohibited by applicable law, you shall render, as an independent advisor or consultant and not as an Employee, such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) as shall reasonably be requested by the Company (or any Parent, Subsidiary or Affiliate), and such services shall not be terminated for Cause (for purposes of clarity, any request to provide such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) shall not be considered a continuation of “Service” unless the Company specifically provides that the continuation of services is a continuation of “Service” for purposes of this Section 3(b)).

(ii) For a period of \_\_\_\_\_ ( \_\_\_\_\_ ) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not directly or indirectly, individually or on behalf of other persons or entities, intentionally solicit or induce (a) any

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<sup>1</sup> If you are subject to the employment protections of a country within the European Economic Area because you reside in such country or are otherwise subject thereto, “Retirement” shall mean your years of Service is at least equal to \_\_\_\_\_ ( \_\_\_\_\_ ), regardless of your age, and the provisions concerning Retirement shall apply to you so long as the termination of your Service occurs no earlier than the one-year anniversary of the Grant Date. In all cases, years of Service shall be determined based on the date you originally provided Service. If you previously terminated Service, but subsequently returned to Service prior to the Grant Date, you will receive credit for your prior Service.

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employee of the Company (or any Parent, Subsidiary or Affiliate) to leave the employee's employment in order to accept employment with another person or entity or (b) any customer of the Company (or any Parent, Subsidiary or Affiliate) with whom you have worked in your capacity as an Employee prior to your termination of Service whose identity and/or any related information constitutes protected trade secrets (with such customers determined as of the date of the termination of your Service, to retain or use any other person or entity for the purpose of rendering services in competition with the Company (or any Parent, Subsidiary or Affiliate) or to purchase products from any business which, in the opinion of the Company (or any Parent, Subsidiary or Affiliate), competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), in either case, unless these restrictions are prohibited (whether in whole or in part) by applicable law.

(iii) For a period of \_\_\_\_\_ ( \_\_\_\_ ) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not render services for any organization or engage directly or indirectly in any business which, in the opinion of the Company, competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), unless this restriction is prohibited by applicable law.

(iv) You shall not, without prior written authorization from the Company, use or disclose any confidential information or trade secrets concerning the Company (or any Parent, Subsidiary or Affiliate), in each case as determined by the Committee, and the Committee's determination shall be conclusive and binding.

(c) Notwithstanding any provisions to the contrary in this Agreement, in the event of the termination of your Service for Cause or in the event of the termination for Cause of any independent advisory or consulting services you may be providing as described in Section 3(b)(i), any unsettled or unvested Performance-Based Stock Units shall terminate and be forfeited immediately without consideration.

#### 4. **Special Acceleration** .

(a) To the extent the Performance-Based Stock Units are outstanding at the time of a Corporate Transaction, such Performance-Based Stock Units shall automatically become vested in full at the Target Amount immediately prior to the effective date of the Corporate Transaction and settled in accordance with Section 5 below. No such accelerated vesting, however, shall occur if and to the extent: (i) these Performance-Based Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable performance-based stock units of the successor corporation (or parent thereof), in each case, having a minimum payout equal to the Target Amount and preserving the settlement provisions set forth in Section 5 below or (ii) these Performance-Based Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and, at a minimum, preserves the fair market value of the Performance-Based Stock Units at the time of the Corporate Transaction (based on the Target Amount) and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of



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performance-based stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the settlement of Performance-Based Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Performance-Based Stock Units are outstanding at the time of a Change in Control, such Performance-Based Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at the Target Amount at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

#### **5. Settlement of Performance-Based Stock Units .**

(a) **General Settlement Terms .** The Performance-Based Stock Units, to the extent earned and vested hereunder (including, without limitation by reason of Retirement), shall be automatically settled in Shares on the Vest Date (which constitutes a fixed payment date for purposes of Code Section 409A) or, if earlier, upon the earliest to occur of the settlement events set forth below or in the Company's Vesting Acceleration Policy for Death and Terminal Illness; it being understood that nothing herein shall limit the Company's ability to amend or terminate such policy in its sole discretion and without your consent.

(b) **Corporate Transaction .** If, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this Performance-Based Stock Unit award and this Performance-Based Stock Unit award is not assumed or replaced as described in Section 4(a) in connection with a Corporate Transaction, then the Performance-Based Stock Units shall be automatically settled in Shares immediately prior to the effective date of the Corporate Transaction instead of on the Vest Date.

(c) **Change in Control .** In the event a Change in Control is consummated prior to the Vest Date and such Change in Control is a permissible distribution event under Code Section 409A, the Performance-Based Stock Units shall be automatically settled in Shares immediately prior to the effective date of the Change in Control. In the event such Change in Control is not a permissible distribution event under Code Section 409A, the Performance-Based Stock Units shall be automatically settled in Shares upon the earlier of (i) the Vest Date or (ii) your Separation from Service that occurs immediately prior to or at any time after such Change in Control. Notwithstanding the foregoing, if, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this

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Performance-Based Stock Unit award, then such settlement shall in all cases occur immediately prior the effective date of the Change in Control.

(d) The Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law.

(e) Notwithstanding anything in this Section 5 or in this Agreement, to the extent your Performance-Based Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

## 6. Taxes .

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Performance-Based Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance-Based Stock Units, including the grant, vesting or settlement of the Performance-Based Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Performance-Based Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Performance-Based Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Performance-Based Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Performance-Based Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Performance-Based Stock Units, notwithstanding that a number of

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the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. **Tax and Legal Advice** . You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY PERFORMANCE-BASED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Performance-Based Stock Units** . Performance-Based Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Performance-Based Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions** . Stock certificates evidencing the Shares issued pursuant to the Performance-Based Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

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11. **Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Performance-Based Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Performance-Based Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Performance-Based Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information** .

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Performance-Based Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Performance-Based Stock Units under the Plan or with whom Shares acquired pursuant to these Performance-Based Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You*

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*further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Performance-Based Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

**14. No Entitlement or Claims for Compensation .**

(a) Your rights, if any, in respect of or in connection with these Performance-Based Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Performance-Based Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Performance-Based Stock Units to you or benefits in lieu of Restricted Stock Units, even if Performance-Based Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Performance-Based Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Performance-Based Stock Units and the Shares subject to the Performance-Based Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Performance-Based Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Performance-Based Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Performance-Based Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Performance-Based Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the

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Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Performance-Based Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Performance-Based Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) or from the Company's determination that performance goals have not been satisfied in whole or in part and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Performance-Based Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Performance-Based Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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19. **Electronic Delivery** . The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. **Language** . If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix** . Notwithstanding any provisions in this Agreement, the Performance-Based Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements** . The Company reserves the right to impose other requirements on your participation in the Plan, on the Performance-Based Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Performance-Based Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement** . You must expressly accept the terms and conditions of your Performance-Based Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Performance-Based Stock Units in the manner instructed by the Company, your Performance-Based Stock Units will be subject to cancellation.

\* \* \* \*

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

**PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS**



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**CISCO SYSTEMS, INC.**  
**STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the “Agreement”) is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the “Company”), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the “Plan”). The material terms of this Stock Unit Award are as follows:

Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

First Vest Date: \_\_\_\_\_

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units** . So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: twenty-five percent (25%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under applicable local law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service** . In the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer actively providing Service and will not be extended by any notice period mandated under local law ( e.g. , active Service would not include a period of “garden leave” or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Restricted Stock Units.

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#### 4. **Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units** . To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A (“Separation from Service”) and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than six years after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the

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foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

**6. Taxes .**

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

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7. **Tax and Legal Advice** . You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Restricted Stock Units.

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13. **Authorization to Release and Transfer Necessary Personal Information** .

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan .*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan .*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative .*

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14. **No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from termination of your Service by the Company or the Employer (for any reason

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whatsoever and whether or not in breach of local labor laws) and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Restricted Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery** . The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

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20. **Language** . If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix** . Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements** . The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement** . You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

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You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

**PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS**

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(For Grants Beginning September 2010 and  
Prior to September 2012)

**CISCO SYSTEMS, INC.**  
**STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

First Vest Date: \_\_\_\_\_

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units** . So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: \_\_\_\_\_ ( \_\_\_ %) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each \_\_\_ anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under applicable local law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service** . In the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer



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actively providing Service and will not be extended by any notice period mandated under local law ( e.g. , active Service would not include a period of “garden leave” or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Restricted Stock Units.

#### 4. **Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units** . To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A (“Separation from Service”) and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than five years

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after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

**6. Taxes .**

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

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(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. **Tax and Legal Advice** . You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

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12. **Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Restricted Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information** .

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. **No Entitlement or Claims for Compensation** .

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(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units

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resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Restricted Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery** . The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

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20. **Language** . If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix** . Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements** . The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement** . You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

\* \* \* \*

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

**PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS**

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(For Grants Beginning September 2008 and  
Prior to September 2010)

**CISCO SYSTEMS, INC.**  
**STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: \_\_\_\_\_  
\_\_\_\_\_

Grant Date: \_\_\_\_\_  
\_\_\_\_\_

Grant Number: \_\_\_\_\_  
\_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_  
\_\_\_\_\_

First Vest Date: \_\_\_\_\_  
\_\_\_\_\_

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

**1. Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

**2. Vesting of Restricted Stock Units** . So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: \_\_\_\_\_ percent ( \_\_ %) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each \_\_\_\_\_ anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under applicable local law. Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

**3. Termination of Service** . In the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer



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actively providing Service and will not be extended by any notice period mandated under local law ( e.g. , active Service would not include a period of “garden leave” or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Restricted Stock Units.

#### **4. Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction and shall become vested in full at that time. No such acceleration, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the vesting schedule set forth in Section 2 above. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**5. Settlement of Restricted Stock Units** . Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law.

#### **6. Taxes** .

(a) Regardless of any action the Company or your employer (the “Employer”) takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally

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applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

**7. Tax and Legal Advice** . You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer’s or the Company’s or the Employer’s representatives for an assessment of such consequences. **YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO**

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CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

**8. Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

**9. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

**10. Restrictive Legends and Stop-Transfer Instructions** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

**11. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

**12. Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled upon vesting. In addition, you shall not have any rights to dividend equivalent payments with respect to unvested Restricted Stock Units.

**13. Authorization to Release and Transfer Necessary Personal Information** .

*(a) You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

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*(b) You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

*(c) You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

**14. No Entitlement or Claims for Compensation .**

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

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(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

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(j) The Restricted Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

**15. Governing Law and Forum** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

**16. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**17. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**18. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

**19. Electronic Delivery** . The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**20. Language** . If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

**21. Appendix** . Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

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**22. Imposition of Other Requirements** . The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

**23. Acceptance of Agreement** . You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

\* \* \* \*

You acknowledge that by clicking on the *I agree* button below, you agree to be bound by the terms of this Agreement.

**PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS**

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(For Grants Prior to September 2008)

**CISCO SYSTEMS, INC.  
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

First Vest Date: \_\_\_\_\_ (the first annual anniversary of the vesting commencement date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

**1. Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

**2. Vesting of Restricted Stock Units** . So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: twenty percent (20%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each annual anniversary thereafter, unless otherwise provided by the Plan or Section 4 below.

**3. Termination of Service** . In the event of the termination of your Service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

**4. Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction and shall become vested in full at that time. No such acceleration, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the vesting schedule set forth in Section 2 above. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive



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(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**5. Settlement of Restricted Stock Units** . Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax withholding obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law.

**6. Withholding Taxes** . You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable withholding tax obligations that arise in connection with the Restricted Stock Units which, at the sole discretion of the Company, may include (i) having the Company withhold Shares from the settlement of the Restricted Stock Units, or (ii) any other arrangement approved by the Company, in any case, equal in value to the amount necessary to satisfy any such withholding tax obligations. The Company shall not be required to issue Shares pursuant to this Agreement unless and until such obligations are satisfied.

**7. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

**8. Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

**9. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares

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(including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

**10. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

**11. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**12. Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

**13. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct your employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your employment, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

**14. No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the

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Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

**15. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**16. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**17. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**18. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

[Date]

[Name]

[Address]

[Address]

Dear \_\_\_\_\_ :

[introductory text]

Your leadership team has recommended that you receive a performance-based restricted stock unit (PRSU) right with a target of [ \_\_\_\_\_ ]. RSUs will be granted after the end of FY[ \_\_ ] based upon the satisfaction of an FY[ \_\_ ] performance condition.

The right to receive a grant of a restricted stock unit depends on Cisco's satisfaction of certain [ \_\_\_\_\_ ] targets for FY[ \_\_ ]. Assuming those targets are met or exceeded, the restricted stock units that you are granted will vest [ \_\_\_\_\_ ] percent on the date of grant and [ \_\_\_\_\_ ] percent on each of the next [ \_\_\_\_\_ ] anniversaries of the date of grant thereafter, subject to your continued employment with Cisco or an affiliate on the applicable vesting date. On each vesting date, the vested units will be settled in Cisco common stock. In addition, in the unlikely event that a corporate transaction or change in control (each as defined in Cisco's 2005 Stock Incentive Plan) is consummated during FY[ \_\_ ] or prior to the Compensation and Management Development Committee's Certification regarding satisfaction of the FY[ \_\_ ] performance conditions, the performance-based restricted stock unit right will be deemed fully earned at target (100%) immediately prior to the effective date of the corporate transaction or the change in control, as the case may be, and will be settled in fully vested Cisco common stock at that time.

Lastly, please note that, if you are employed outside the United States, the Compensation and Management Development Committee can grant the PRSU Right to you, in its sole discretion, only if and as long as it is permitted and feasible to grant restricted stock units under the laws of the country in which you are employed. If local laws make the grant of restricted stock units illegal or impractical, Cisco will let you know as soon as possible. You are under no obligation to accept the PRSU Right or any restricted stock units that may subsequently be granted to you.

[concluding text]

Sincerely,

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[Date]

[Name]

[Address]

[Address]

Dear \_\_\_\_\_ :

[introductory text]

As an indicator of our confidence in you as a leader, recognizing your current high level of performance as well as your future contributions, I want to tell you about the restricted stock unit component of our FY08 ongoing stock program. This component represents the right to receive a future grant of **restricted stock units** (after the end of FY08) if an FY08 performance condition is satisfied. This right is referred to in this letter as the “ **performance-based restricted stock unit right (PRSU Right)** .”

I want to be the first to congratulate you on your leadership team recommending you for a **performance-based restricted stock unit right** having a target of **XX restricted stock units** , which will be granted after the end of FY08 based upon the satisfaction of an FY08 performance condition, contingent on shareholder approval as described below. Since you may be eligible to receive a grant of restricted stock units for the first time, I would like to review briefly the details of this program.

The right to receive a grant of a restricted stock unit depends on Cisco’s satisfaction of certain operating income growth targets for FY08. Assuming those targets are met or exceeded, the **restricted stock units** that you are granted will vest twenty percent on the date of grant and twenty percent on each of the next four anniversaries of the date of grant thereafter, subject to your continued employment with Cisco or an affiliate on the applicable vesting date. Unlike stock options, there is no monthly vesting for restricted stock units. On each vesting date, the vested units will be settled in Cisco common stock. In addition, in the unlikely event that a corporate transaction or change in control (each as defined in Cisco’s 2005 Stock Incentive Plan) is consummated during FY08, the performance-based restricted stock unit right will be deemed fully earned at target (100%) immediately prior to the effective date of the corporate transaction or the change in control, as the case may be, and will be settled in fully vested Cisco common stock at that time.

The PRSU Right and the right to receive restricted stock units depends on our shareholders approving the amendment and extension of Cisco’s 2005 Stock Incentive Plan at the 2007 annual meeting. In the unlikely event that our shareholders do not approve the amendment and extension of the 2005 Stock Incentive Plan, you will not be eligible to receive any restricted stock units. However, at such time as the shareholders do approve a plan, the Compensation and Management Development Committee may make an equitable substitute stock award to you.

Lastly, please note that, if you are employed outside the United States, the Compensation and Management Development Committee can grant the PRSU Right to you, in its sole discretion, only if and as long as it is permitted and feasible to grant restricted stock units under the laws of the country in which you are employed. If local laws make the grant of restricted stock units illegal or impractical, Cisco will let you know as soon as possible. You are under no obligation to accept the PRSU Right or any restricted stock units that may subsequently be granted to you.

[concluding text]

Sincerely,

John Chambers

Chairman & CEO, Cisco Systems

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**ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]**

**Deferral Election for  
Annual Equity Award  
2005 Stock Incentive Plan  
(For Elections Prior to 1/1/2011)**

Name (Last, First, Middle Initial) \_\_\_\_\_

Employee Number \_\_\_\_\_

You may use this form to:

- Indicate the percentage of your annual restricted stock unit grant under the 2005 Stock Incentive Plan that you wish to defer. Your elected percentage will apply to each vesting installment of such grant.
- Designate the settlement timing of the deferred portion of your vested annual restricted stock unit grant.

**PLEASE REMEMBER THAT ONCE YOU MAKE AN ELECTION TO DEFER A RESTRICTED STOCK UNIT GRANT, YOU CANNOT REVOKE THAT ELECTION.**

**DEFERRAL ELECTION**

Please select if you wish to defer restricted stock units; fill in the appropriate blanks.

**Restricted Stock  
Unit Grant**

I elect to defer \_\_\_\_\_ % (you may only insert 25%, 50%, 75%, or 100%) of my annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on \_\_\_\_\_, 201\_\_ (subject to my continued employment with the Company or the Employer). I understand that this elected percentage will apply to each vesting installment of this grant.

**SETTLEMENT DATE \***

Please complete this section to indicate settlement timing for the deferred portion of your vested annual restricted stock unit grant. You may only choose one alternative.

**Separation of Service  
OR**

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to my Separation of Service (as defined in Section 409A of the Internal Revenue Code).

**Date Specific (subject  
to earlier settlement  
upon separation from  
service)**

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to the earlier of (i) my Separation from Service; or (ii) the first business day of 20 \_\_\_\_\_ (insert a year no earlier than 5 years after the year of grant and no later than 15 years after the year of grant).

\* Any vested portion of the deferred portion of my restricted stock unit grant will be settled in shares of the Company's common stock.

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**ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]**

**Deferral Election for  
Annual Equity Award  
2005 Stock Incentive Plan**

I understand:

- To the extent I do not elect to defer the settlement of my restricted stock unit grant, such portion of the restricted stock unit grant will be automatically settled in shares of the Company's common stock upon the vesting of the restricted stock unit grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- Any vested portion of the deferred restricted stock unit grant will be settled in shares of the Company's common stock as elected by me above.
- If my Separation from Service occurs before my restricted stock unit grant vests, any unvested restricted stock units will be forfeited as of the date my Separation from Service occurs.
- Any employment taxes that are due upon the vesting of my restricted stock unit grant (including the deferred portion of my grant) shall be deducted at the time of vesting by one or a combination of the following:
  - (1) withholding from my wages or other cash compensation payable to me by the Company or the Employer;
  - (2) withholding from proceeds of the sale of shares acquired upon settlement of the restricted stock units either through a voluntary sale or through a mandatory sale arranged by the Company (on my behalf pursuant to this authorization);
  - (3) withholding of shares that would otherwise be issued upon settlement of the restricted stock units; or
  - (4) requiring me to satisfy the liability for any employment taxes by means of any other arrangement approved by the Company.
- The receipt of shares of the Company's common stock pursuant to any restricted stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the stock unit grant is settled and I receive shares of the Company's common stock. This is true whether or not I elect to defer settlement of my restricted stock units.
- The settlement of the deferred portion of my annual restricted stock unit grant upon my Separation from Service will be delayed for 6 months.

**ACKNOWLEDGED AND AGREED:**

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Signature of Participant

Date

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**ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]**

**Deferral Election for  
Annual Equity Award  
2005 Stock Incentive Plan**

Name (Last, First, Middle Initial) \_\_\_\_\_

Employee Number \_\_\_\_\_

You may use this form to:

- Indicate the percentage of your annual restricted stock unit grant under the 2005 Stock Incentive Plan that you wish to defer. Your elected percentage will apply to each vesting installment of such grant.
- Designate the settlement timing of the deferred portion of your vested annual restricted stock unit grant.

**PLEASE REMEMBER THAT ONCE YOU MAKE AN ELECTION TO DEFER A RESTRICTED STOCK UNIT GRANT, YOU CANNOT REVOKE THAT ELECTION.**

**DEFERRAL ELECTION**

Please select if you wish to defer restricted stock units; fill in the appropriate blanks.

**Restricted Stock  
Unit Grant**

I elect to defer \_\_\_\_\_ % (you may only insert 25%, 50%, 75%, or 100%) of my annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on \_\_\_\_\_, 201\_\_ (subject to my continued employment with the Company or the Employer). I understand that this elected percentage will apply to each vesting installment of this grant.

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**SETTLEMENT DATE \***

Please complete this section to indicate settlement timing for the deferred portion of your vested annual restricted stock unit grant. You may only choose one alternative.

↙

**OR**

**Separation of Service**

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to my Separation of Service (as defined in Section 409A of the Internal Revenue Code).

**Date Specific (subject  
to earlier settlement  
upon separation from service)**

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to the earlier of (i) my Separation from Service; or (ii) the first business day of 20 \_\_\_\_\_ (insert a year no earlier than 6 years after the year of grant and no later than 15 years after the year of grant).

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\* Any vested portion of the deferred portion of my restricted stock unit grant will be settled in shares of the Company's common stock.



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**ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]**

**Deferral Election for  
Annual Equity Award  
2005 Stock Incentive Plan**

I understand:

- To the extent I do not elect to defer the settlement of my restricted stock unit grant, such portion of the restricted stock unit grant will be automatically settled in shares of the Company's common stock upon the vesting of the restricted stock unit grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- Any vested portion of the deferred restricted stock unit grant will be settled in shares of the Company's common stock as elected by me above.
- If my Separation from Service occurs before my restricted stock unit grant vests, any unvested restricted stock units will be forfeited as of the date my Separation from Service occurs.
- "Separation from Service" is defined in Treasury Regulation Section 1.409A-1(h). While separation from service generally means termination of employment, a Separation from Service can also occur in the case of certain leaves of absence or upon a significant reduction in my work schedule. These events can trigger a "Separation from Service" resulting in the forfeiture of my unvested restricted stock units.
- Certain leaves of absence can result in the suspension of vesting of my unvested restricted stock units. If I take a leave of absence that suspends the vesting of my restricted stock units such that they are unvested as of the applicable distribution event (whether that is Separation from Service or a date specific I elected), my restricted stock units that are unvested at the time of such distribution event shall be forfeited.
- Any employment taxes that are due upon the vesting of my restricted stock unit grant (including the deferred portion of my grant) shall be deducted at the time of vesting by one or a combination of the following:
  - (1) withholding from my wages or other cash compensation payable to me by the Company or the Employer;
  - (2) withholding from proceeds of the sale of shares acquired upon settlement of the restricted stock units either through a voluntary sale or through a mandatory sale arranged by the Company (on my behalf pursuant to this authorization);
  - (3) withholding of shares that would otherwise be issued upon settlement of the restricted stock units; or
  - (4) requiring me to satisfy the liability for any employment taxes by means of any other arrangement approved by the Company.
- The receipt of shares of the Company's common stock pursuant to any restricted stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the stock unit grant is settled and I receive shares of the Company's common stock. This is true whether or not I elect to defer settlement of my restricted stock units.
- The settlement of the deferred portion of my annual restricted stock unit grant upon my Separation from Service will be delayed for 6 months.

**ACKNOWLEDGED AND AGREED:**

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Signature of Participant

Date

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**CISCO SYSTEMS, INC.  
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

Vest Date: \_\_\_\_\_ (the date of the Annual Meeting of Shareholders following the initial election or appointment date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units** . So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.

3. **Termination of Service** . Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. **Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

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(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units** . To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A (“Separation from Service”), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law.

6. **Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company’s representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. **Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process, whether voluntarily or involuntarily or by operation of law.

8. **Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company’s transfer agent) if, in the judgment of the Company and the Company’s counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. **Stock Certificate Restrictive Legends** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company’s counsel deem necessary under applicable law or pursuant to this Agreement.

10. **Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company’s counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the

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Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. **Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

12. **Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

13. **No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

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(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. **Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. **Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. **Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. **Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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(Beginning Fiscal 2009 and Prior to November 2012)  
NON-EMPLOYEE DIRECTOR INITIAL RSU GRANT

**CISCO SYSTEMS, INC.**  
**STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

First Vest Date: \_\_\_\_\_ (the date of completion of the first year of service as a member of the Board measured from the initial election or appointment date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

**1. Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

**2. Vesting of Restricted Stock Units** . So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: fifty percent (50%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and upon your completion of each year of service as a member of the Board thereafter, unless otherwise provided by the Plan or Section 4 below.

**3. Termination of Service** . Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

**4. Special Acceleration** .

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

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(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**5. Settlement of Restricted Stock Units** . To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A (“Separation from Service”), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law.

**6. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company’s representatives for an assessment of such tax consequences. **YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.**

**7. Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process, whether voluntarily or involuntarily or by operation of law.

**8. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company’s transfer agent) if, in the judgment of the Company and the Company’s counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.



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**9. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company’s counsel deem necessary under applicable law or pursuant to this Agreement.

**10. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company’s counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**11. Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

**12. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the “Data”) regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company’s local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

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**13. No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

**14. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**15. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**16. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**17. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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(Beginning Fiscal 2009)

NON-EMPLOYEE DIRECTOR ANNUAL RSU GRANT

CISCO SYSTEMS, INC.  
**STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Stock Units: \_\_\_\_\_

Vest Date: The completion of one (1) year of Board service measured from the Grant Date.

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

- 1. Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.
- 2. Vesting of Restricted Stock Units** . So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.
- 3. Termination of Service** . Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.
- 4. Special Acceleration** .
  - (a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

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(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**5. Settlement of Restricted Stock Units** . To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A (“Separation from Service”), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law.

**6. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company’s representatives for an assessment of such tax consequences. **YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.**

**7. Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process, whether voluntarily or involuntarily or by operation of law.

**8. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company’s transfer agent) if, in the judgment of the Company and the Company’s counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

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**9. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company’s counsel deem necessary under applicable law or pursuant to this Agreement.

**10. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company’s counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**11. Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

**12. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the “Data”) regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company’s local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

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**13. No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

**14. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**15. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**16. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**17. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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(Prior to Fiscal 2009)

NON-EMPLOYEE DIRECTOR INITIAL GRANT

CISCO SYSTEMS, INC.  
**NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Type of Option: Nonstatutory Stock Option

Grant Number: \_\_\_\_\_

Number of Option Shares: \_\_\_\_\_ shares

Exercise Price: \$ \_\_\_\_\_ per share

Expiration Date: \_\_\_\_\_

Date Exercisable: Immediately Exercisable

**Vesting Schedule**

The Option Shares shall initially be unvested and subject to repurchase by the Company at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Company's repurchase right shall accordingly lapse, with respect to, the Option Shares in a series of four (4) successive equal annual installments upon Optionee's completion of each year of service as a member of the Board over the four (4) year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

**REPURCHASE RIGHT** . OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE COMPANY, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE BOARD PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

**No Service Contract** . Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue to serve on the Board for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate Optionee's service on the Board at any time, for any reason, with or without cause, and in accordance with the provisions of applicable law.

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**Definitions** . All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

**DATED:** \_\_\_\_\_ , \_\_\_\_\_

**CISCO  
SYSTEMS, INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**OPTIONEE**



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## STOCK OPTION AGREEMENT

### Recitals

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

**NOW, THEREFORE** , it is hereby agreed as follows:

**1. Grant of Option** . The Company hereby grants to Optionee, as of the Grant Date, a Nonstatutory Stock Option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

**2. Option Term** . This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5, 6 or 7.

**3. Non-Transferability** . This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

**4. Exercisability/Vesting** .

(a) This Option shall be immediately exercisable for any or all of the Option Shares, whether or not the Option Shares are vested in accordance with the Vesting Schedule set forth in the Notice, and shall remain so exercisable until the Expiration Date or the sooner termination of the Option term under this Paragraph 4 or Paragraph 5, 6 or 7.

(b) Optionee shall, in accordance with the Vesting Schedule set forth in the Notice, vest in the Option Shares in a series of installments over his or her period of Board service. Vesting in the Option Shares may be accelerated pursuant to the provisions of Paragraph 5, 6 or 7. In no event, however, shall any additional Option Shares vest following Optionee's cessation of service as a Board member.

(c) As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or

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the earlier termination date under Paragraph 5, 6 or 7 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in service as provided in Paragraph 5(a) and the date twelve (12) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

**5. Cessation of Board Service** . Should Optionee's service as a Board member cease while this Option remains outstanding, then the Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date in accordance with the following provisions:

(a) Should Optionee cease to serve as a Board member for any reason (other than death or Disability) while this Option is outstanding, then the period for exercising this Option shall be reduced to a twelve (12)-month period commencing with the date of such cessation of Board service, but in no event shall this Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this Option may not be exercised in the aggregate for more than the number of Option Shares (if any) in which Optionee is vested on the date of his or her cessation of Board service. Upon the earlier of (i) the expiration of such twelve (12)-month period or (ii) the specified Expiration Date, the Option shall terminate and cease to be exercisable with respect to any vested Option Shares for which the Option has not been exercised.

(b) Should Optionee die during the twelve (12)-month period following his or her cessation of Board service and hold this Option at the time of his or her death, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option for any or all of the Option Shares in which Optionee is vested at the time of Optionee's cessation of Board service (less any Option Shares purchased by Optionee after such cessation of Board service but prior to death). Such right of exercise shall terminate, and this Option shall accordingly cease to be exercisable for such vested Option Shares, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(c) Should Optionee cease service as a Board member by reason of death or Disability, then all Option Shares at the time subject to this Option but not otherwise vested shall immediately vest in full so that Optionee (or the personal representative of Optionee's estate or the person or persons to whom the Option is transferred upon Optionee's death) shall have the right to exercise this Option for any or all of the Option Shares as fully-vested shares of Common Stock at any time prior to the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(d) Upon Optionee's cessation of Board service for any reason other than death or Disability, this Option shall immediately terminate and cease to be

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outstanding with respect to any and all Option Shares in which Optionee is not otherwise at that time vested in accordance with the normal Vesting Schedule set forth in the Notice or the special vesting acceleration provisions of Paragraph 6 or 7 below.

**6. Corporate Transaction .**

(a) In the event of a Corporate Transaction, all Option Shares at the time subject to this Option but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

(b) If this Option is assumed in connection with a Corporate Transaction, then this Option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the Option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

**7. Change In Control/Hostile Take-Over .**

(a) All Option Shares subject to this Option at the time of a Change In Control but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the effective date of such Change In Control, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. This Option shall remain exercisable for such fully-vested Option Shares until the earliest to occur of (i) the specified Expiration Date, (ii) the sooner termination of this Option in accordance with Paragraph 4, 5 or 6 or (iii) the surrender of this Option under Paragraph 7(b).

(b) Optionee shall have an unconditional right (exercisable during the thirty (30)-day period immediately following the consummation of a "Hostile Take-Over" (as defined below)) to surrender this Option to the Company in exchange for a cash distribution from the Company in an amount equal to the excess of (i) the "Take-Over Price" (as defined below) of the Option Shares at the time subject to the surrendered Option (whether or not those Option Shares are otherwise at the time vested) over (ii) the aggregate Exercise Price payable for such shares. This Paragraph 7(b) limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the Option term and may not be assigned or transferred by Optionee. For purposes of this Option, "Hostile Take-Over" shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than thirty five percent (35%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the

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Company's shareholders which the Board does not recommend such shareholders to accept. Further, for purposes of this Option, "Take-Over Price" shall mean the greater of (i) the Fair Market Value on the date the Option is surrendered to the Company in connection with a Hostile Take-Over, or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over.

(c) To exercise the Paragraph 7(b) limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Company with written notice of the option surrender in which there is specified the number of Option Shares as to which the Option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of this Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date. Upon receipt of such cash distribution, this Option shall be cancelled with respect to the shares subject to the surrendered Option (or the surrendered portion), and Optionee shall cease to have any further right to acquire those Option Shares under this Agreement. The Option shall, however, remain outstanding for the balance of the Option Shares (if any) in accordance with the terms and provisions of this Agreement, and the Company shall accordingly issue a new stock option agreement (substantially in the same form as this Agreement) for those remaining Option Shares.

**8. Adjustment in Option Shares** . In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

**9. Shareholder Rights** . The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

**10. Manner of Exercising Option** .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated

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brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.

(iv) To the extent that the option is exercised for one or more unvested Option Shares, Optionee (or other person exercising the option) shall deliver to the Secretary of the Company a purchase agreement for those unvested Option Shares.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

**11. No Impairment of Rights** . This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, nothing in this Agreement shall in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Company or the shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

**12. Compliance with Laws and Regulations** .

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

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**13. Successors and Assigns** . Except to the extent otherwise provided in Paragraphs 3, 5, 6 and 7, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

**14. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**15. Construction** . The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

**16. Governing Law** . The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

**17. Excess Shares** . If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

**18. Further Instruments** . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

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(Prior to Fiscal 2009)

NON-EMPLOYEE DIRECTOR ANNUAL GRANT

CISCO SYSTEMS, INC.  
**NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Type of Option: Nonstatutory Stock Option

Grant Number: \_\_\_\_\_

Number of Option Shares: \_\_\_\_\_ shares

Exercise Price: \$ \_\_\_\_\_ per share

Expiration Date: \_\_\_\_\_

Date Exercisable: Immediately Exercisable

**Vesting Schedule**

The Option Shares shall initially be unvested and subject to repurchase by the Company at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Company's repurchase right shall accordingly lapse, with respect to, the Option Shares in a series of two (2) successive equal annual installments upon Optionee's completion of each year of service as a member of the Board over the two (2) year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

**REPURCHASE RIGHT** . OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE COMPANY, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE BOARD PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

**No Service Contract** . Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue to serve on the Board for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate Optionee's service on the Board at any time, for any reason, with or without cause, and in accordance with the provisions of applicable law.

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**Definitions** . All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

**DATED:** \_\_\_\_\_ , \_\_\_\_\_

**CISCO  
SYSTEMS, INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**OPTIONEE**



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## STOCK OPTION AGREEMENT

### Recitals

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

**NOW, THEREFORE** , it is hereby agreed as follows:

**1. Grant of Option** . The Company hereby grants to Optionee, as of the Grant Date, a Nonstatutory Stock Option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

**2. Option Term** . This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5, 6 or 7.

**3. Non-Transferability** . This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

**4. Exercisability/Vesting** .

(a) This Option shall be immediately exercisable for any or all of the Option Shares, whether or not the Option Shares are vested in accordance with the Vesting Schedule set forth in the Notice, and shall remain so exercisable until the Expiration Date or the sooner termination of the Option term under this Paragraph 4 or Paragraph 5, 6 or 7.

(b) Optionee shall, in accordance with the Vesting Schedule set forth in the Notice, vest in the Option Shares in a series of installments over his or her period of Board service. Vesting in the Option Shares may be accelerated pursuant to the provisions of Paragraph 5, 6 or 7. In no event, however, shall any additional Option Shares vest following Optionee's cessation of service as a Board member.

(c) As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or

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the earlier termination date under Paragraph 5, 6 or 7 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in service as provided in Paragraph 5(a) and the date twelve (12) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

**5. Cessation of Board Service** . Should Optionee's service as a Board member cease while this Option remains outstanding, then the Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date in accordance with the following provisions:

(a) Should Optionee cease to serve as a Board member for any reason (other than death or Disability) while this Option is outstanding, then the period for exercising this Option shall be reduced to a twelve (12)-month period commencing with the date of such cessation of Board service, but in no event shall this Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this Option may not be exercised in the aggregate for more than the number of Option Shares (if any) in which Optionee is vested on the date of his or her cessation of Board service. Upon the earlier of (i) the expiration of such twelve (12)-month period or (ii) the specified Expiration Date, the Option shall terminate and cease to be exercisable with respect to any vested Option Shares for which the Option has not been exercised.

(b) Should Optionee die during the twelve (12)-month period following his or her cessation of Board service and hold this Option at the time of his or her death, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option for any or all of the Option Shares in which Optionee is vested at the time of Optionee's cessation of Board service (less any Option Shares purchased by Optionee after such cessation of Board service but prior to death). Such right of exercise shall terminate, and this Option shall accordingly cease to be exercisable for such vested Option Shares, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(c) Should Optionee cease service as a Board member by reason of death or Disability, then all Option Shares at the time subject to this Option but not otherwise vested shall immediately vest in full so that Optionee (or the personal representative of Optionee's estate or the person or persons to whom the Option is transferred upon Optionee's death) shall have the right to exercise this Option for any or all of the Option Shares as fully-vested shares of Common Stock at any time prior to the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(d) Upon Optionee's cessation of Board service for any reason other than death or Disability, this Option shall immediately terminate and cease to be

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outstanding with respect to any and all Option Shares in which Optionee is not otherwise at that time vested in accordance with the normal Vesting Schedule set forth in the Notice or the special vesting acceleration provisions of Paragraph 6 or 7 below.

**6. Corporate Transaction**

(a) In the event of a Corporate Transaction, all Option Shares at the time subject to this Option but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

(b) If this Option is assumed in connection with a Corporate Transaction, then this Option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the Option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

**7. Change In Control/Hostile Take-Over**

(a) All Option Shares subject to this Option at the time of a Change In Control but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the effective date of such Change In Control, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. This Option shall remain exercisable for such fully-vested Option Shares until the earliest to occur of (i) the specified Expiration Date, (ii) the sooner termination of this Option in accordance with Paragraph 4, 5 or 6 or (iii) the surrender of this Option under Paragraph 7(b).

(b) Optionee shall have an unconditional right (exercisable during the thirty (30)-day period immediately following the consummation of a "Hostile Take-Over" (as defined below)) to surrender this Option to the Company in exchange for a cash distribution from the Company in an amount equal to the excess of (i) the "Take-Over Price" (as defined below) of the Option Shares at the time subject to the surrendered Option (whether or not those Option Shares are otherwise at the time vested) over (ii) the aggregate Exercise Price payable for such shares. This Paragraph 7(b) limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the Option term and may not be assigned or transferred by Optionee. For purposes of this Option, "Hostile Take-Over" shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than thirty five percent (35%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the

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Company's shareholders which the Board does not recommend such shareholders to accept. Further, for purposes of this Option, "Take-Over Price" shall mean the greater of (i) the Fair Market Value on the date the Option is surrendered to the Company in connection with a Hostile Take-Over, or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over.

(c) To exercise the Paragraph 7(b) limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Company with written notice of the option surrender in which there is specified the number of Option Shares as to which the Option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of this Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date. Upon receipt of such cash distribution, this Option shall be cancelled with respect to the shares subject to the surrendered Option (or the surrendered portion), and Optionee shall cease to have any further right to acquire those Option Shares under this Agreement. The Option shall, however, remain outstanding for the balance of the Option Shares (if any) in accordance with the terms and provisions of this Agreement, and the Company shall accordingly issue a new stock option agreement (substantially in the same form as this Agreement) for those remaining Option Shares.

**8. Adjustment in Option Shares** . In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

**9. Shareholder Rights** . The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

**10. Manner of Exercising Option** .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated

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brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.

(iv) To the extent that the option is exercised for one or more unvested Option Shares, Optionee (or other person exercising the option) shall deliver to the Secretary of the Company a purchase agreement for those unvested Option Shares.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

**11. No Impairment of Rights** . This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, nothing in this Agreement shall in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Company or the shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

**12. Compliance with Laws and Regulations** .

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

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**13. Successors and Assigns** . Except to the extent otherwise provided in Paragraphs 3, 5, 6 and 7, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

**14. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**15. Construction** . The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

**16. Governing Law** . The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

**17. Excess Shares** . If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

**18. Further Instruments** . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

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**NON-EMPLOYEE DIRECTOR STOCK GRANT**

**CISCO SYSTEMS, INC.  
STOCK GRANT AGREEMENT**

This Stock Grant Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Grant Award are as follows:

Grantee: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Restricted Shares: \_\_\_\_\_

Vest Date:                   The completion of one (1) year of Board service measured from the Grant Date.

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

**1. Restricted Shares** . Pursuant to the Plan, the Company hereby transfers to you, and you hereby accept from the Company, a Stock Grant Award consisting of the Restricted Shares, on the terms and conditions set forth herein and in the Plan.

**2. Vesting of Restricted Shares** . So long as your service on the Board continues, the Restricted Shares shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Shares issued pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 3 below. Except as provided in Section 3 below, in the event of the termination of your Board service for any reason, all unvested Restricted Shares shall be immediately forfeited without consideration. For purposes of facilitating the enforcement of the provisions of this Section 2, the Company may issue stop-transfer instructions on the Restricted Shares to the Company's transfer agent, or otherwise hold the Restricted Shares in escrow, until the Restricted Shares have vested and you have satisfied all applicable obligations with respect to the Restricted Shares, including any applicable tax withholding obligations set forth in Section 5 below. Any new, substituted or additional securities or other property which is issued or distributed with respect to the unvested Restricted Shares shall be subject to the same terms and conditions as are applicable to the unvested Restricted Shares under this Agreement and the Plan.

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### **3. Special Acceleration**

(a) To the extent the Restricted Shares are outstanding at the time of a Corporate Transaction or a Change in Control, but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability then, to the extent the Restricted Shares are outstanding, but not otherwise fully vested, such Restricted Shares shall automatically accelerate and shall become vested in full at that time.

(c) This Stock Grant Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

**4. Restriction on Election to Recognize Income in the Year of Grant** . Under Section 83 of the Code, the Fair Market Value of the Restricted Shares on the date the Restricted Shares vest will be taxable as ordinary income at that time. You understand, acknowledge and agree that, as a condition to the grant of this Award, you may not elect to be taxed at the time the Restricted Shares are acquired by filing an election under Section 83(b) of the Code with the Internal Revenue Service.

**5. Withholding Taxes** . You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable withholding tax obligations that arise in connection with the Restricted Shares which, at the sole discretion of the Company, may include (i) having the Company withhold Shares from the Restricted Shares held in escrow, or (ii) any other arrangement approved by the Company, in any case, equal in value to the amount necessary to satisfy any such withholding tax obligation. Such Shares shall be valued based on the Fair Market Value as of the day prior to the date that the amount of tax to be withheld is to be determined under applicable law. The Company shall not be required to release the Restricted Shares from the stop-transfer instructions or escrow unless and until such obligations are satisfied.

**6. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY STOCK GRANT AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

**7. Non-Transferability of Restricted Shares** . Restricted Shares which have not vested pursuant to Section 2 above shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by the operation of law. However, this Section 7 shall not



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preclude you from designating a beneficiary who will receive any vested Restricted Shares in the event of the your death, nor shall it preclude a transfer of vested Restricted Shares by will or by the laws of descent and distribution.

**8. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

**9. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Restricted Shares may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

**10. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Restricted Shares may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**11. Voting and Other Rights** . Subject to the terms of this Agreement, you shall have all the rights and privileges of a shareholder of the Company while the Restricted Shares are subject to stop-transfer instructions, or otherwise held in escrow, including the right to vote and to receive dividends (if any).

**12. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of this Stock Grant Award under the Plan or with whom Shares acquired pursuant to this Stock Grant Award or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

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(b) You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from this Stock Grant Award, and your ability to participate in the Plan.

**13. No Entitlement or Claims for Compensation** .

(a) Your rights, if any, in respect of or in connection with this Stock Grant Award or any other Award is derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting this Stock Grant Award, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. This Stock Grant Award is not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Stock Grant Award or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Stock Grant Award or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that the Company may require that Restricted Shares be held by a broker designated by the Company. In addition, you agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

**14. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**15. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**16. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**17. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

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DATED: \_\_\_\_\_, \_\_\_\_

**CISCO  
SYSTEMS, INC.**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**GRANTEE**

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**NON-EMPLOYEE DIRECTOR STOCK UNIT  
IN LIEU OF ANNUAL RETAINER**

**CISCO SYSTEMS, INC.  
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: \_\_\_\_\_

Grant  
Date: \_\_\_\_\_

Grant  
Number: \_\_\_\_\_

Restricted Stock  
Units: \_\_\_\_\_

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

- 1. Restricted Stock Units** . Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.
- 2. Vesting of Restricted Stock Units** . One-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Grant Date.
- 3. Settlement of Restricted Stock Units** . Restricted Stock Units shall be automatically settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax withholding obligations and such issuance otherwise complies with all applicable law.
- 4. Tax Advice** . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. **YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.**

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**5. Non-Transferability of Restricted Stock Units** . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. However, this Section 5 shall not preclude you from designating a beneficiary who will receive vested Shares pursuant to this award in the event of your death, nor shall it preclude a transfer of vested Shares pursuant to this award by will or by the laws of descent and distribution.

**6. Restriction on Transfer** . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

**7. Stock Certificate Restrictive Legends** . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

**8. Representations, Warranties, Covenants, and Acknowledgments** . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

**9. Voting and Other Rights** . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled in Shares upon your Separation from Service.

**10. Authorization to Release Necessary Personal Information** .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

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(b) Prior to the time that the Restricted Stock Units are settled in Shares upon your Separation from Service, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

**11. Governing Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

**12. Notices** . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

**13. Binding Effect** . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

**14. Severability** . If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

DATED: \_\_\_\_\_

CISCO  
SYSTEMS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
GRANTEE

**NON-EMPLOYEE DIRECTOR ELECTION UNDER THE  
CISCO SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN  
INITIAL EQUITY AWARD**

I, \_\_\_\_\_, being a prospective newly elected or appointed non-employee member of the Board of Directors of Cisco Systems, Inc. (the "Company") hereby (check one):

(i)  **ELECT** or (ii)  **DO NOT ELECT** to defer the settlement of my total initial restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on the date of my election or appointment in connection with my initial election or appointment as a non-employee member of the Board of Directors of the Company.

This election will be effective only if received by Cisco's Legal Department on or before the date of my election or appointment.

If I do not elect to defer the settlement of my initial restricted stock unit grant, my initial restricted stock unit grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the below described vesting date of the restricted stock unit grant.

My initial restricted stock unit grant will vest in full at the Company's Annual Meeting of Shareholders following my initial election or appointment date (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement. I understand that if my "separation from service" within the meaning of Section 409A of the Internal Revenue Code ("Separation from Service") occurs before my restricted stock unit grant vests, the grant will be forfeited.

I understand that if I elect to defer the settlement of my initial restricted stock unit grant, the grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to defer the settlement of my initial restricted stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

Signature of Non-Employee Director

Date

*\* Because individual circumstances vary, Cisco Systems, Inc. can not provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential elections.*

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**NON-EMPLOYEE DIRECTOR ELECTION UNDER THE  
CISCO SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN  
ANNUAL RETAINER & EQUITY AWARD**

**ANNUAL RETAINER**

I, \_\_\_\_\_, being a non-employee member of the Board of Directors of Cisco Systems, Inc. (the "Company") hereby make the following election.

*Please choose (a) or (b) below.*

- (a) \_\_\_\_\_ I elect to receive my full annual retainer for the next year of Board service commencing at the next Annual Meeting of Shareholders in cash.
- (b) \_\_\_\_\_ I elect to receive \_\_\_\_\_% (*insert a percentage between 25% and 100%*) of my total annual retainer for the next year of Board service commencing at the next Annual Meeting of Shareholders, in the form of:

*Please choose either (i) or (ii) below.*

- (i) \_\_\_\_\_ fully vested shares, which will be given to me under the 2005 Stock Incentive Plan (the "Plan") on November \_\_, 20\_\_ based on the closing value of the Company's common stock on that date (the "Fair Market Value"); **OR**
- (ii) \_\_\_\_\_ a fully vested deferred stock unit grant which will be granted under the Plan on November \_\_, 20\_\_ based on the Fair Market Value.

I understand that, to the extent I do not elect to receive all or any portion of my annual retainer in the form of either (i) shares or (ii) a deferred stock unit grant, I will receive such retainer in cash on, or as soon as practicable after, the date of the Annual Meeting of Shareholders on \_\_\_\_\_, 20\_\_. If I make no election, I will receive my full annual retainer in cash.

I understand that, if I elect to receive shares, I will receive the shares on, or as soon as practicable after, the date of the annual shareholder meeting and that my receipt of shares will be taxed as ordinary income to me based on the value of the shares on the date of grant.

I understand that, if I elect to receive a deferred stock unit grant, any such grant will be settled in shares of the Company's common stock on, or as soon as practicable after, my "separation from service" within the meaning of Section 409A of the Internal Revenue Code (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to receive a deferred stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.



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## **ANNUAL EQUITY AWARD**

I further (check one) (i) \_\_\_ **ELECT** or (ii) \_\_\_ **DO NOT ELECT** to defer the settlement of my total annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on \_\_\_\_\_, 20\_\_ immediately following the Company's 20\_\_ Annual Meeting of Shareholders.

If I do not elect to defer the settlement of my annual restricted stock unit grant, the above-mentioned annual restricted stock unit grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the vesting of the restricted stock unit grant upon the completion of one year of Board service following the date of grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement. I understand that if my "separation from service" within the meaning of Section 409A of the Internal Revenue Code ("Separation from Service") occurs before my restricted stock unit grant vests, the grant will be forfeited.

I understand that if I elect to defer the settlement of the above-mentioned annual restricted stock unit grant, the grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to defer the settlement of my annual restricted stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

I understand that these elections will be effective only if received by \_\_\_\_\_ on or before \_\_\_\_\_ [December 31, [PRECEDING YEAR]].

Signature of Non-Employee Director

Date

*\* Because individual circumstances vary, Cisco Systems, Inc. can not provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential elections.*

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**CISCO SYSTEMS, INC.**

**VESTING ACCELERATION POLICY  
FOR  
DEATH AND TERMINAL ILLNESS  
AS  
AMENDED SEPTEMBER 8, 2011**

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all equity awards issued under any equity plan maintained Cisco or any Cisco subsidiary, including equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by the applicable equity plan, equity award agreement or any applicable law, rule or regulation.

For purposes of this policy:

- the value of stock options and stock appreciation rights is based on the difference between the exercise price of the equity awards and the closing price of Cisco’s stock on the date of the employee’s death or terminal illness, as applicable, or if such day is not a trading day, the last trading day prior to the date of death or terminal illness, as applicable; and
- the value of stock grants, stock units, and unvested shares previously acquired pursuant to equity awards (such shares are referred to herein as “unvested equity award shares”) is based on the difference between the purchase price, if any, and the closing price of Cisco’s stock on the date of the employee’s death or terminal illness, as applicable, or if such day is not a trading day, the last trading day prior to the date of death or terminal illness, as applicable;
- “unvested equity award shares” includes outstanding and unvested performance-based restricted stock or stock unit awards and the accelerated vesting of such awards will be deemed to occur at target levels, subject to the specified limits below; and
- to the extent the vesting of any performance-based restricted stock or stock unit award is accelerated pursuant to this policy, the award will be settled upon the death or terminal illness of an employee, as the case may be, except that if the applicable award is subject to Section 409A of the Internal Revenue Code (“Code Section 409A”) and such terminal illness does not qualify as a “Disability” within the meaning of Code Section 409A, then the award will instead be settled on the fixed payment date following the end of the performance period on which the applicable award is normally paid out.

**ACCELERATION UPON DEATH OF EMPLOYEE**

Upon the death of an employee, Cisco will accelerate the vesting of the employee’s outstanding equity awards and any unvested equity award shares up to a specified limit based on the value of the equity awards and/or shares on the date of death. The limit on the amount of accelerated vesting is the greater of: (a) one-hundred percent (100%) of the unvested equity awards and/or unvested equity award shares up to a total value of \$10 million; or (b) up to one year of vesting from the date of death as to all unvested equity awards and/or unvested equity award shares. For example, if an employee held unvested options for 100,000 shares with an exercise price of \$1 which would vest in four annual installments of 25,000 shares, and the closing price of Cisco’s stock on the date of the employee’s death was \$101, all 100,000 of the shares would become vested (100,000 shares x \$100 (the difference between \$101 and \$1) = \$10,000,000).

**ACCELERATION UPON TERMINAL ILLNESS OF EMPLOYEE**

Upon the terminal illness of an employee, Cisco will accelerate the vesting of the employee’s outstanding equity awards and any unvested equity award shares up to a specified limit based on the value of the equity

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awards and/or shares on the date of the terminal illness. An employee will be considered terminally ill upon the approval by Cisco's employee life insurance provider of the accelerated life insurance benefit which indicates 12 months or less to live. When a request is made to accelerate the vesting of an employee's outstanding equity awards and early life insurance payouts are not also requested, an employee will be considered terminally ill upon the approval by Cisco's external, independent medical review vendor (which may include Cisco's employee life insurance provider). The date of terminal illness will be the date the determination is made by Cisco's employee life insurance provider or Cisco's external, independent medical review vendor. The limit on the amount of accelerated vesting is the greater of: (a) one-hundred percent (100%) of the unvested equity awards and/or unvested equity award shares up to a total value of \$10 million; or (b) up to one year of vesting from the date of the terminal illness as to all unvested equity awards and/or unvested equity award shares. For example, if an employee holds unvested options for 100,000 shares with an exercise price of \$1 which would vest in four annual installments of 25,000 shares, and the closing price of Cisco's stock on the date that the employee is determined to be terminally ill was \$101, all 100,000 of the shares would become vested (100,000 shares x \$100 (the difference between \$101 and \$1) = \$10,000,000).

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**CISCO SYSTEMS, INC.**

**VESTING POLICY  
FOR  
LEAVES OF ABSENCE**

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all equity awards issued under any equity plan maintained Cisco or any Cisco subsidiary, including equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by the applicable equity plan, equity award agreement or any applicable law, rule or regulation.

**(Effective until approximately November 2008)**

**SUSPENSION OF VESTING UPON AUTHORIZED LEAVE OF ABSENCE**

The exercise or vesting schedule in effect for any outstanding equity award and any unvested shares previously acquired pursuant to any equity award (such shares referred to herein as “unvested equity award shares”) held by an employee at the time of the employee’s commencement of an authorized leave of absence shall be suspended as of the first day of the authorized leave of absence, and the equity award and any unvested equity shares shall not vest and/or become exercisable for any additional shares during the period the employee remains on such leave of absence.

**(Effective in or around November 2008)**

**90 DAYS CONTINUED VESTING ON AUTHORIZED LEAVES OF ABSENCE**

The exercise or vesting schedule in effect for any outstanding equity award and any unvested shares previously acquired pursuant to any equity award (such shares referred to herein as “unvested equity award shares”) held by an employee at the time of the employee’s commencement of an authorized leave of absence shall continue to vest and/or become exercisable in accordance with the vesting schedule set forth in the applicable equity award agreement during the period the employee remains on such authorized leave of absence; provided that, in no event shall any employee be entitled to vest for more than 90 days of authorized leaves of absence during any rolling 12-month period (the “LOA Limit”).

If an employee exceeds the LOA Limit during any rolling 12-month period, the unvested equity award shares held by such an employee shall be suspended immediately following the expiration of the LOA Limit and the equity award and any unvested equity shares shall not vest and/or become exercisable for any additional shares during the remainder of the rolling 12-month period.

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**CISCO SYSTEMS, INC.**  
**TRANSFER POLICY**  
**FOR**  
**DIVORCE**

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all equity awards issued under any equity plan maintained Cisco or any Cisco subsidiary, including equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by the applicable equity plan, equity award agreement or any applicable law, rule or regulation.

**PROHIBITION ON TRANSFER OF EQUITY AWARDS UPON DIVORCE**

Except as provided below, equity awards and any unvested shares acquired pursuant to equity awards shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process in connection with the divorce of the holder of such equity award or shares. Equity awards and any unvested shares acquired pursuant to equity awards may be transferred by an executive officer of Cisco only to the extent required by a domestic relations order, as defined by the Internal Revenue Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder, in settlement of marital property rights by any court of competent jurisdiction.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John T. Chambers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2013

/s/ John T. Chambers

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John T. Chambers  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank A. Calderoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2013

/s/ Frank A. Calderoni

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Frank A. Calderoni  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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

I, John T. Chambers, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended January 26, 2013, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2013

/s/ John T. Chambers

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John T. Chambers

Chairman and Chief Executive Officer

(Principal Executive Officer)



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

I, Frank A. Calderoni, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended January 26, 2013, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2013

/s/ Frank A. Calderoni

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Frank A. Calderoni

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

**Commitments And  
Contingencies (Tables)**

**6 Months Ended  
Jan. 26, 2013**

**Commitments and Contingencies Disclosure**

**[Abstract]**

**Schedule Of Future Annual Minimum Lease  
Payments Under All Noncancelable Operating  
Leases**

Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of January 26, 2013 are as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2013 (remaining six months)	\$ 182
2014	281
2015	237
2016	120
2017	83
Thereafter	226
<b>Total</b>	<b>\$ 1,129</b>

**Schedule Of Product Warranty Liability**

The following table summarizes the activity related to product warranty liability during the six months ended January 26, 2013 and January 28, 2012 (in millions):

	<u>Six Months Ended</u>	
	<u>January 26, 2013</u>	<u>January 28, 2012</u>
Balance at beginning of period	\$ 415	\$ 342
Provision for warranties issued	319	331
Payments	(310)	(266)
Balance at end of period	<b>\$ 424</b>	<b>\$ 407</b>

**Restructuring And Other  
Charges (Schedule Of  
Activities Related To  
Restructuring And Other  
Charges) (Detail) (USD \$)**

**6 Months Ended      12 Months Ended**

**Jan. 26, 2013    Jul. 28, 2012 Jul. 30, 2011**

**In Millions, unless otherwise  
specified**

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve, Period Expense</u>	\$ 72	\$ 353	\$ 799
<u>Change In Estimate Of Restructuring Reserves</u>		(49)	
<u>Restructuring Reserve, Settled with Cash</u>	(149)	(436)	(449)
<u>Restructuring Reserve, Settled without Cash</u>	(3)	(20)	(88)
<u>Restructuring Reserve</u>	30	110	262

Special Termination Benefits [Member]

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve, Period Expense</u>	0	0	453
<u>Change In Estimate Of Restructuring Reserves</u>		0	
<u>Restructuring Reserve, Settled with Cash</u>	0	(17)	(436)
<u>Restructuring Reserve, Settled without Cash</u>	0	0	0
<u>Restructuring Reserve</u>	0	0	17

Employee Severance [Member]

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve, Period Expense</u>	77	299	247
<u>Change In Estimate Of Restructuring Reserves</u>		(49)	
<u>Restructuring Reserve, Settled with Cash</u>	(139)	(401)	(13)
<u>Restructuring Reserve, Settled without Cash</u>	0	0	0
<u>Restructuring Reserve</u>	21	83	234

Goodwill And Intangible Assets [Member]

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve, Period Expense</u>	0	0	71
<u>Change In Estimate Of Restructuring Reserves</u>		0	
<u>Restructuring Reserve, Settled with Cash</u>	0	0	0
<u>Restructuring Reserve, Settled without Cash</u>	0	0	(71)
<u>Restructuring Reserve</u>	0	0	0

Other [Member]

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve, Period Expense</u>	(5)	54	28
<u>Change In Estimate Of Restructuring Reserves</u>		0	
<u>Restructuring Reserve, Settled with Cash</u>	(10)	(18)	0
<u>Restructuring Reserve, Settled without Cash</u>	(3)	(20)	(17)
<u>Restructuring Reserve</u>	\$ 9	\$ 27	\$ 11

Goodwill And Purchased Intangible Assets (Schedule Of Goodwill By Reportable Segments) (Detail) (USD \$) In Millions, unless otherwise specified	6 Months Ended						6 Months Ended								
	Jan. 26, 2013	Jan. 26, 2013 Americas [Member]	Jan. 26, 2013 Europe Middle East And Africa [Member]	Jul. 28, 2012 Europe Middle East And Africa [Member]	Jan. 26, 2013 Asia Pacific Japan And China [Member]	Jul. 28, 2012 Asia Pacific Japan And China [Member]	Jan. 26, 2013 NDS Group Limited [Member]	Jan. 26, 2013 NDS Group Limited Americas [Member]	Jan. 26, 2013 NDS Group Limited Europe Middle East And Africa [Member]	Jan. 26, 2013 NDS Group Limited Asia Pacific Japan And China [Member]	Jan. 26, 2013 NDS Group Limited Other Americas [Member]	Jan. 26, 2013 NDS Group Limited Other Americas [Member]	Jan. 26, 2013 Acquisition Other East And Africa [Member]	Jan. 26, 2013 Acquisition Other Europe Middle East And Africa [Member]	Jan. 26, 2013 Acquisition Other Japan And China [Member]
<a href="#">Goodwill [Roll Forward]</a>															
<a href="#">Balance, beginning</a>	\$ 16,998	\$ 11,755	\$ 4,880	\$ 3,287	\$ 2,977	\$ 1,956									
<a href="#">Acquisitions</a>							3,444	1,230	1,327	887	920	520	266	134	
<a href="#">Goodwill, Translation and Purchase Accounting Adjustments</a>	(1)	(1)													
<a href="#">Balance, ending</a>	\$ 21,361	\$ 13,504	\$ 4,880	\$ 3,287	\$ 2,977	\$ 1,956									

**Fair Value - Additional  
Information (Detail) (USD \$)**

**Jan. 26, 2013      Jul. 28, 2012**

**Disclosure Fair Value Additional Information [Abstract]**

<u>Equity Method Investments</u>	\$ 239,000,000	\$ 249,000,000
<u>Loan Receivables And Financed Service Contracts And Others Carrying Value</u>	2,000,000,000	1,900,000,000
<u>Long-term Debt, Fair Value</u>	18,300,000,000	18,800,000,000
<u>Long-term Debt</u>	\$	\$
	16,300,000,000	16,300,000,000

**Balance Sheet Details**  
**(Detail) (USD \$)**  
**In Millions, unless otherwise**  
**specified**

**Jan. 26, 2013    Jul. 28, 2012**

**Inventories:**

<u>Raw materials</u>	\$ 113	\$ 127
<u>Work in process</u>	24	35
<u>Distributor inventory and deferred cost of sales</u>	648	630
<u>Manufactured finished goods</u>	498	597
<u>Total finished goods</u>	1,146	1,227
<u>Service-related spares</u>	248	213
<u>Demonstration systems</u>	43	61
<u>Total</u>	1,574	1,663

**Property and Equipment, net:**

<u>Land, buildings, and building &amp; leasehold improvements</u>	4,491	4,363
<u>Computer equipment and related software</u>	1,455	1,469
<u>Production, engineering, and other equipment</u>	5,642	5,364
<u>Operating lease assets</u>	304	[1] 300
<u>Furniture and fixtures</u>	493	487
<u>Property, plant and equipment, gross</u>	12,385	11,983
<u>Less accumulated depreciation and amortization</u>	(8,982)	[1] (8,581)
<u>Total</u>	3,403	3,402

**Other Assets:**

<u>Deferred tax assets</u>	1,807	2,270
<u>Investments in privately held companies</u>	869	858
<u>Other</u>	834	754
<u>Total</u>	3,510	3,882

**Deferred Revenue:**

<u>Deferred Revenue Services</u>	9,055	9,173
<u>Unrecognized revenue on product shipments and other deferred revenue</u>	3,309	2,975
<u>Cash receipts related to unrecognized revenue from two-tier distributors</u>	957	732
<u>Total product deferred revenue</u>	4,266	3,707
<u>Deferred Revenue</u>	13,321	12,880
<u>Current</u>	9,108	8,852
<u>Noncurrent</u>	\$ 4,213	\$ 4,028

[1] Accumulated depreciation related to operating lease assets was \$186 and \$181 as of January 26, 2013 and July 28, 2012, respectively.

**Derivative Instruments  
(Additional Information)  
(Details) (USD \$)  
In Millions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26, 2013**

**Derivative [Line Items]**

Net derivative gains to be reclassified from AOCI into earnings in next twelve months \$ 25

Cash Flow Hedging [Member] | Foreign Exchange Contract [Member]

**Derivative [Line Items]**

Foreign currency cash flow hedges maturity period, maximum, months

0 years 18 months 0 days

**Business Combinations**  
**(Summary Of Allocation Of**  
**Total Purchase**  
**Consideration) (Detail) (USD**  
**\$)**  
**In Millions, unless otherwise**  
**specified**

**6 Months**  
**Ended**

**Jan. 26, 2013**

**Business Acquisition [Line Items]**

Business Combination, Consideration Transferred \$ 1,207

Business Acquisition, Purchase Price Allocation, Goodwill Amount 920

Business Acquisition, Purchase Price Allocation, Liabilities Assumed (74)

Business Acquisition, Purchase Price Allocation, Intangible Assets Other than Goodwill 361

Meraki, Inc. [Member]

**Business Acquisition [Line Items]**

Business Combination, Consideration Transferred 974

Business Acquisition, Purchase Price Allocation, Goodwill Amount 744

Business Acquisition, Purchase Price Allocation, Liabilities Assumed (59)

Business Acquisition, Purchase Price Allocation, Intangible Assets Other than Goodwill 289

NDS Group Limited [Member]

**Business Acquisition [Line Items]**

Business Acquisition, Cost of Acquired Entity, Cash Paid 4,012

Repayments of Assumed Debt 993

Business Combination, Consideration Transferred 5,005

Business Acquisition, Purchase Price Allocation, Current Assets, Cash and Cash Equivalents 98

Business Acquisition, Purchase Price Allocation, Current Assets, Receivables 199

Business Acquisition, Purchase Price Allocation, Tangible Assets 268

Business Acquisition, Purchase Price Allocation, Goodwill Amount 3,444

Business Acquisition, Purchase Price Allocation, Deferred Income Taxes, Asset (Liability), Net (378)

Business Acquisition, Purchase Price Allocation, Liabilities Assumed (372)

Business Acquisition, Purchase Price Allocation, Intangible Assets Other than Goodwill 1,746

Other Acquisition [Member]

**Business Acquisition [Line Items]**

Business Combination, Consideration Transferred 233

Business Acquisition, Purchase Price Allocation, Goodwill Amount 176

Business Acquisition, Purchase Price Allocation, Liabilities Assumed (15)

Business Acquisition, Purchase Price Allocation, Intangible Assets Other than Goodwill \$ 72



**Balance Sheet Details  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Balance Sheet Details](#)

[\[Abstract\]](#)

[Balance Sheet Details](#)

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

	January 26, 2013	July 28, 2012
<b>Inventories:</b>		
Raw materials	\$ 113	\$ 127
Work in process	24	35
Finished goods:		
Distributor inventory and deferred cost of sales	648	630
Manufactured finished goods	498	597
Total finished goods	1,146	1,227
Service-related spares	248	213
Demonstration systems	43	61
Total	<u>\$ 1,574</u>	<u>\$ 1,663</u>
<b>Property and equipment, net:</b>		
Land, buildings, and building and leasehold improvements	\$ 4,491	\$ 4,363
Computer equipment and related software	1,455	1,469
Production, engineering, and other equipment	5,642	5,364
Operating lease assets <sup>(1)</sup>	304	300
Furniture and fixtures	493	487
	12,385	11,983
Less accumulated depreciation and amortization <sup>(1)</sup>	(8,982)	(8,581)
Total	<u>\$ 3,403</u>	<u>\$ 3,402</u>
<b>Other assets:</b>		
Deferred tax assets	\$ 1,807	\$ 2,270
Investments in privately held companies	869	858
Other	834	754
Total	<u>\$ 3,510</u>	<u>\$ 3,882</u>
<b>Deferred revenue:</b>		
Service	\$ 9,055	\$ 9,173
Product:		
Unrecognized revenue on product shipments and other deferred revenue	3,309	2,975
Cash receipts related to unrecognized revenue from two-tier distributors	957	732
Total product deferred revenue	4,266	3,707
Total	<u>\$ 13,321</u>	<u>\$ 12,880</u>
<b>Reported as:</b>		

<sup>(1)</sup> Accumulated depreciation related to operating lease assets was \$186 and \$181 as of January 26, 2013 and July 28, 2012, respectively.

Current	\$ 9,108	\$ 8,852
Noncurrent	4,213	4,028
Total	<u>\$ 13,321</u>	<u>\$ 12,880</u>

**Derivative Instruments  
(Derivatives Recorded At  
Fair Value) (Details) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, Jul. 28,  
2013 2012**

**Derivative [Line Items]**

<u>Derivative assets</u>	\$ 244	\$ 264
<u>Derivative liabilities</u>	57	42

Designated As Hedging Instrument [Member]

**Derivative [Line Items]**

<u>Derivative assets</u>	228	247
<u>Derivative liabilities</u>	45	30

Derivatives Not Designated As Hedging Instruments [Member]

**Derivative [Line Items]**

<u>Derivative assets</u>	16	17
<u>Derivative liabilities</u>	12	12

Foreign Exchange Contract [Member] | Designated As Hedging Instrument [Member] | Other Current Assets [Member]

**Derivative [Line Items]**

<u>Derivative assets</u>	34	24
Foreign Exchange Contract [Member]   Designated As Hedging Instrument [Member]   Other Current Liabilities [Member]		

**Derivative [Line Items]**

<u>Derivative liabilities</u>	2	26
Foreign Exchange Contract [Member]   Derivatives Not Designated As Hedging Instruments [Member]   Other Current Assets [Member]		

**Derivative [Line Items]**

<u>Derivative assets</u>	16	16
Foreign Exchange Contract [Member]   Derivatives Not Designated As Hedging Instruments [Member]   Other Current Liabilities [Member]		

**Derivative [Line Items]**

<u>Derivative liabilities</u>	12	12
Equity Derivatives [Member]   Designated As Hedging Instrument [Member]   Other Current Assets [Member]		

**Derivative [Line Items]**

<u>Derivative assets</u>	0	
Equity Derivatives [Member]   Designated As Hedging Instrument [Member]   Other Current Liabilities [Member]		

**Derivative [Line Items]**

<u>Derivative liabilities</u>	43	4
Equity Derivatives [Member]   Derivatives Not Designated As Hedging Instruments [Member]   Other Assets [Member]		

**Derivative [Line Items]**

<u>Derivative assets</u>	0	1
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Interest Rate Derivatives [Member] | Designated As Hedging Instrument [Member] | Other  
Assets [Member]

[Derivative \[Line Items\]](#)

[Derivative assets](#)

\$ 194    \$ 223

	3 Months Ended	6 Months Ended	3 Months Ended	6 Months Ended	3 Months Ended	6 Months Ended	3 Months Ended	6 Months Ended		3 Months Ended	6 Months Ended	
					Jan. 28, 2012	Jan. 28, 2012						
					Fair Value Assets	Fair Value Assets	Jan. 28, 2012	Jan. 28, 2012	Jan. 26, 2013 Fair Value,	Jan. 28, 2012 Fair Value,	Jan. 26, 2013 Fair Value,	Jan. 26, 2013 Fair Value,
Fair Value (Fair Value On A Nonrecurring Basis) (Detail)	Jan. 28, 2012	Jan. 28, 2012	Jan. 28, 2012	Measured On Nonrecurring Basis Change	Measured On Nonrecurring Basis Change	Fair Value, Inputs, Level 3	Fair Value, Inputs, Level 3	Measurements, Nonrecurring [Member]	Measurements, Nonrecurring [Member]	Measurements, Nonrecurring [Member]	Measurements, Nonrecurring [Member]	
(USD \$)				In Unrealized Gain Loss Included In G&A	In Unrealized Gain Loss Included In G&A	[Member] Investments Held Companies	[Member] Investments Held Companies	Net Carrying Value [Member] Fair Value,	Net Carrying Value [Member] Fair Value,	Net Carrying Value [Member] Fair Value,	Net Carrying Value [Member] Fair Value,	
In Millions, unless otherwise specified	Jan. 28, 2012	Jan. 28, 2012	Jan. 28, 2012	[Member] Assets Held- for-sale [Member]	[Member] Assets Held- for-sale [Member]	[Member] Inputs, Level 3	[Member] Inputs, Level 3	[Member] Inputs, Level 3	[Member] Inputs, Level 3	[Member] Inputs, Level 3	[Member] Inputs, Level 3	
<a href="#">Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]</a>												
<a href="#">Investment in privately held companies</a>								\$ 60	\$ 6			
<a href="#">Property Held For Sale Fair Value Disclosure</a>									39			
<a href="#">Fair Value Nonrecurring Basis Gain Loss Recorded Total</a>	\$ 14	\$ 14	\$ (14)	\$ (104)	\$ (27)	\$ (116)	\$ (1)	\$ (2)		\$ (8)	\$ (18)	

**Shareholders' Equity  
Accumulated Other  
Comprehensive Income  
(Details) (USD \$)  
In Millions, unless otherwise  
specified**

**6 Months  
Ended**

**Jan. 26, Jan. 28,  
2013 2012**

**Accumulated Other Comprehensive Income (Loss) [Roll Forward]**

<u>Accumulated Other Comprehensive Income (Loss), Available-for-sale Securities Adjustment, Net of Tax, Beginning Balance</u>	\$ 409	\$ 487
<u>Accumulated Other Comprehensive Income (Loss), Cumulative Changes in Net Gain (Loss) from Cash Flow Hedges, Effect Net of Tax, Beginning Balance</u>	(53)	6
<u>Accumulated Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment, Net of Tax, Beginning Balance</u>	305	801
<u>Accumulated Other Comprehensive Income (Loss), Net of Tax, Beginning Balance</u>	661	1,294
<u>Other Comprehensive Income (Loss), Available-for-sale Securities Adjustment, Net of Tax, Portion Attributable to Parent</u>	52	(59)
<u>Other Comprehensive Income (Loss), Derivatives Qualifying as Hedges, Net of Tax, Portion Attributable to Parent</u>	65	(68)
<u>Other Comprehensive Income (Loss), Foreign Currency Transaction and Translation Adjustment, Net of Tax, Portion Attributable to Parent</u>	120	(317)
<u>Other Comprehensive Income (Loss), Net of Tax, Portion Attributable to Parent</u>	237	(444)
<u>Accumulated Other Comprehensive Income (Loss), Available-for-sale Securities Adjustment, Net of Tax, Ending Balance</u>	461	428
<u>Accumulated Other Comprehensive Income (Loss), Cumulative Changes in Net Gain (Loss) from Cash Flow Hedges, Effect Net of Tax, Ending Balance</u>	12	(62)
<u>Accumulated Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment, Net of Tax, Ending Balance</u>	425	484
<u>Accumulated Other Comprehensive Income (Loss), Net of Tax, Ending Balance</u>	\$ 898	\$ 850

Financing Receivables And Guarantees (Additional Information) (Detail) (USD \$)	3 Months Ended		6 Months Ended		
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013 D	Jan. 28, 2012	Jul. 28, 2012
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>					
<u>Deferred Service Revenue</u>	\$ 13,321,000,000		\$ 13,321,000,000		\$ 12,880,000,000
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	8,092,000,000		8,092,000,000		7,626,000,000
<u>Risk rating for receivables deemed to be impaired, minimum</u>			8		
<u>Financing receivables, amount past due on accrual status</u>	82,000,000		82,000,000		109,000,000
<u>Channel partners revolving short-term financing payment term, minimum (days)</u>			60		
<u>Channel partners revolving short-term financing payment term, maximum (days)</u>			90		
<u>Volume of channel partner financing</u>	5,800,000,000	5,400,000,000	11,400,000,000	10,700,000,000	
<u>Balance of the channel partner financing subject to guarantees</u>	1,400,000,000	1,200,000,000	1,400,000,000	1,200,000,000	
<u>End User Lease And Loan Term Maximum</u>			3 years		
<u>Third Parties Financing Arrangements With Company Guarantee</u>	55,000,000	60,000,000	99,000,000	95,000,000	
Lease Receivables [Member]					
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>					
<u>Average term of lease and loan arrangements, years</u>			4 years		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	3,444,000,000	3,049,000,000	3,444,000,000	3,049,000,000	3,179,000,000
<u>Unbilled Or Current In Greater Than Ninety Days Past Due</u>	179,000,000		179,000,000		139,000,000
Loans Receivable [Member]					
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>					
<u>Term Of Loan Receivable Arrangement</u>			3 years		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	1,785,000,000	1,673,000,000	1,785,000,000	1,673,000,000	1,796,000,000

<a href="#">Unbilled Or Current In Greater Than Ninety Days Past Due</a>	6,000,000		6,000,000		3,000,000
Financed Service Contracts And Other [Member]					
<b><a href="#">Financing Receivables And Guarantees [Line Items]</a></b>					
<a href="#">Revenue recognition range, low end, in years</a>			1 year		
<a href="#">Revenue recognition range, high end, in years</a>			3 years		
<a href="#">Deferred Service Revenue</a>	1,943,000,000		1,943,000,000		1,838,000,000
<a href="#">Capital Leases, Net Investment in Direct Financing Leases</a>	2,863,000,000	2,666,000,000	2,863,000,000	2,666,000,000	2,651,000,000
<a href="#">Unbilled Or Current In Greater Than Ninety Days Past Due</a>	199,000,000		199,000,000		313,000,000
Credit Loss Allowances and deferred revenue [Member]					
<b><a href="#">Financing Receivables And Guarantees [Line Items]</a></b>					
<a href="#">Financing receivable, allowance for credit loss and deferred revenue</a>	2,429,000,000		2,429,000,000		2,387,000,000
<a href="#">Capital Leases, Net Investment in Direct Financing Leases</a>	\$ 8,092,000,000		\$ 8,092,000,000		\$ 7,626,000,000
Internal Credit Rating [Member]					
<b><a href="#">Financing Receivables And Guarantees [Line Items]</a></b>					
<a href="#">Investment Credit Risk Ratings Range Lowest</a>			1		
<a href="#">Investment Credit Risk Ratings Range Highest</a>			4		
<a href="#">Financing credit risk rating-noninvestment-lowest</a>			5		
<a href="#">Financing credit risk rating-noninvestment-highest</a>			6		
<a href="#">Financing credit risk rating-substandard</a>			7		



**Borrowings (Schedule Of  
Long-Term Debt) (Detail)  
(USD \$)**

**Jan. 26, 2013 Jul. 28, 2012**

**In Millions, unless otherwise  
specified**

<a href="#">Long-term debt before Unaccreted discount and Hedge accounting adjustment</a>	\$ 16,000	\$ 16,000
<a href="#">Other Long-term Debt</a>	10	10
<a href="#">Unaccreted discount</a>	(67)	(70)
<a href="#">Hedge accounting fair value adjustments</a>	311	357
<a href="#">Total long-term debt</a>	16,254	16,297
Floating-Rate Notes, Due 2014 [Member]		
<a href="#">Senior notes</a>	1,250	1,250
<a href="#">Effective rate</a>	0.57%	0.81%
1.625% Fixed-Rate Notes, Due 2014 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	1.625%	
<a href="#">Senior notes</a>	2,000	2,000
<a href="#">Effective rate</a>	0.68%	0.84%
2.90% Fixed-Rate Notes, Due 2014 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	2.90%	
<a href="#">Senior notes</a>	500	500
<a href="#">Effective rate</a>	3.11%	3.11%
5.50% Fixed-Rate Notes, Due 2016 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	5.50%	
<a href="#">Senior notes</a>	3,000	3,000
<a href="#">Effective rate</a>	3.08%	3.16%
3.15% Fixed-Rate Notes, Due 2017 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	3.15%	
<a href="#">Senior notes</a>	750	750
<a href="#">Effective rate</a>	0.87%	1.03%
4.95% Fixed-Rate Notes, Due 2019 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	4.95%	
<a href="#">Senior notes</a>	2,000	2,000
<a href="#">Effective rate</a>	5.08%	5.08%
4.45% Fixed-Rate Notes, Due 2020 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	4.45%	
<a href="#">Senior notes</a>	2,500	2,500
<a href="#">Effective rate</a>	4.50%	4.50%
5.90% Fixed-Rate Notes, Due 2039 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	5.90%	
<a href="#">Senior notes</a>	2,000	2,000
<a href="#">Effective rate</a>	6.11%	6.11%
5.50% Fixed-Rate Notes, Due 2040 [Member]		
<a href="#">Debt Instrument, Interest Rate, Stated Percentage</a>	5.50%	
<a href="#">Senior notes</a>	\$ 2,000	\$ 2,000

<a href="#">Effective rate</a>	5.67%	5.67%
Other Long Term Debt [Member]		
<a href="#">Effective rate</a>	0.19%	0.19%

**Commitments And  
Contingencies (Schedule Of  
Product Warranty Liability)  
(Details) (USD \$)  
In Millions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26,      Jan. 28,  
2013            2012**

**Movement in Standard and Extended Product Warranty, Increase (Decrease)**

**[Roll Forward]**

<u>Balance at beginning of fiscal year</u>	\$ 415	\$ 342
<u>Provision for warranties issued</u>	319	331
<u>Payments</u>	(310)	(266)
<u>Balance at end of fiscal year</u>	\$ 424	\$ 407

<b>Derivative Instruments (Effect Of Derivative Instruments Designated As Fair Value Hedges And Underlying Hedged Items On Consolidated Statements Of Operations Summary) (Details) (Derivatives Designated As Fair Value Hedging Instruments [Member], USD \$) In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>

**Hedge Underlying Gain Loss [Line Items]**

<u>Gains (losses) on derivative instruments</u>	\$ 50	\$ 41	\$ 71	\$ 76
---	-------	-------	-------	-------

<u>Change in Unrealized Gain (Loss) on Hedged Item in Fair Value Hedge</u>	50	(42)	71	(78)
--	----	------	----	------

Equity Contract [Member] | Other Income (loss), net  
[Member]

**Hedge Underlying Gain Loss [Line Items]**

<u>Gains (losses) on derivative instruments</u>	39	0	42	0
---	----	---	----	---

<u>Change in Unrealized Gain (Loss) on Hedged Item in Fair Value Hedge</u>	39	0	42	0
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Interest Rate Contract [Member] | Interest Expense [Member]

**Hedge Underlying Gain Loss [Line Items]**

<u>Gains (losses) on derivative instruments</u>	11	41	29	76
---	----	----	----	----

<u>Change in Unrealized Gain (Loss) on Hedged Item in Fair Value Hedge</u>	\$ 11	\$ (42)	\$ 29	\$ (78)
--	-------	---------	-------	---------

Shareholders' Equity - Additional Information (Detail) (USD \$) Share data in Millions, except Per Share data, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012
<a href="#">Shareholders Equity [Line Items]</a>				
<a href="#">Adjustments Related to Tax Withholding for Share-based Compensation</a>			\$ 212,000,000	\$ 145,000,000
<a href="#">Shares Paid for Tax Withholding for Share Based Compensation</a>			11	9
<a href="#">Payments of Dividends</a>			1,487,000,000	644,000,000
<a href="#">Cash dividends declared per common share (in dollars per share)</a>	\$ 0.14	\$ 0.06	\$ 0.28	\$ 0.12
<a href="#">Remaining Aggregate Authorized Common Stock Repurchase</a>	5,100,000,000		5,100,000,000	
<a href="#">Aggregate Authorized Common Stock Repurchase</a>	82,000,000,000		82,000,000,000	
Stockholder Equity Excluding Portion Attributable To Noncontrolling Interest [Member]				
<a href="#">Shareholders Equity [Line Items]</a>				
<a href="#">Payments of Dividends</a>			\$ 1,487,000,000	\$ 644,000,000

**Borrowings (Schedule Of  
Principal Payments For  
Long-Term Debt ) (Detail)  
(USD \$)**

**Jan. 26, 2013**

**In Millions, unless otherwise  
specified**

**Debt Disclosure [Abstract]**

<u>2013 (remaining six months)</u>	\$ 0
<u>2014</u>	3,260
<u>2015</u>	500
<u>2016</u>	3,000
<u>2017</u>	750
<u>Thereafter</u>	8,500
<u>Total future principal payments for long-term debt</u>	\$ 16,010

**Fair Value (Assets And  
Liabilities Measured At Fair  
Value On A Recurring Basis)  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, Jul. 28,  
2013 2012**

Fair Value, Inputs, Level 1 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	\$ 6,621	\$ 4,126
Fair Value, Inputs, Level 2 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a> <a href="#">Liabilities, Fair Value Disclosure</a>	37,665	37,560
Fair Value, Inputs, Level 2 [Member]   Derivative Assets [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	57	42
Fair Value, Inputs, Level 2 [Member]   Derivative Liabilities [Member] <a href="#">Liabilities, Fair Value Disclosure</a>	244	263
Fair Value, Inputs, Level 3 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	57	42
Fair Value, Inputs, Level 3 [Member]   Derivative Assets [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	0	1
Fair Value, Inputs, Level 3 [Member]   Derivative Liabilities [Member] <a href="#">Liabilities, Fair Value Disclosure</a>	0	1
Total Balance Fair Value Measurements [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a> <a href="#">Liabilities, Fair Value Disclosure</a>	44,286	41,687
Total Balance Fair Value Measurements [Member]   Derivative Assets [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	57	42
Total Balance Fair Value Measurements [Member]   Derivative Liabilities [Member] <a href="#">Liabilities, Fair Value Disclosure</a>	244	264
Cash and Cash Equivalents [Member]   Fair Value, Inputs, Level 1 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	57	42
Cash and Cash Equivalents [Member]   Total Balance Fair Value Measurements [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	4,513	2,506
Available-for-sale Securities [Member]   US Treasury and Government [Member]   Fair Value, Inputs, Level 2 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	4,513	2,506
Available-for-sale Securities [Member]   US Treasury and Government [Member]   Total Balance Fair Value Measurements [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	25,177	24,241
Available-for-sale Securities [Member]   US Government Agencies Debt Securities [Member]   Fair Value, Inputs, Level 2 [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	25,177	24,241
Available-for-sale Securities [Member]   US Government Agencies Debt Securities [Member]   Total Balance Fair Value Measurements [Member] <a href="#">Assets, Fair Value Disclosure, Recurring</a>	3,790	5,388
Available-for-sale Securities [Member]   Foreign Government Debt Securities [Member]   Fair Value, Inputs, Level 2 [Member]	3,790	5,388

<a href="#">Assets, Fair Value Disclosure, Recurring</a>	1,336	1,638
Available-for-sale Securities [Member]   Foreign Government Debt Securities [Member]   Total Balance Fair Value Measurements [Member]		
<a href="#">Assets, Fair Value Disclosure, Recurring</a>	1,336	1,638
Available-for-sale Securities [Member]   Corporate Debt Securities [Member]   Fair Value, Inputs, Level 2 [Member]		
<a href="#">Assets, Fair Value Disclosure, Recurring</a>	7,118	6,030
Available-for-sale Securities [Member]   Corporate Debt Securities [Member]   Total Balance Fair Value Measurements [Member]		
<a href="#">Assets, Fair Value Disclosure, Recurring</a>	7,118	6,030
Available-for-sale Securities [Member]   Equity Securities [Member]   Fair Value, Inputs, Level 1 [Member]		
<a href="#">Assets, Fair Value Disclosure, Recurring</a>	2,108	1,620
Equity Securities [Member]   Total Balance Fair Value Measurements [Member]   Available-for-sale Securities [Member]		
<a href="#">Assets, Fair Value Disclosure, Recurring</a>	\$ 2,108	\$ 1,620



## Income Taxes

## 6 Months Ended Jan. 26, 2013

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

#### [Income Taxes](#)

### 15. Income Taxes

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Income before provision for (benefit from) income taxes	\$ 2,780	\$ 2,749	\$ 5,411	\$ 4,994
Provision for (benefit from) income taxes	\$ (363)	\$ 567	\$ 176	\$ 1,035
Effective tax rate	(13.1)%	20.6%	3.3%	20.7%

As discussed further below, the effective tax rate for the three and six months ended January 26, 2013 reflected the Company's recognition of total tax benefits of approximately \$926 million related to a tax settlement with the Internal Revenue Service ("IRS") and the reinstatement of the U.S. federal research and development ("R&D") tax credit on January 2, 2013.

In the second quarter of fiscal 2013, the IRS and the Company settled all outstanding items related to the audit of the Company's federal income tax returns for the fiscal years ended July 27, 2002 through July 28, 2007. As a result of the settlement, the Company increased its income tax receivable by \$733 million and recognized a net benefit to the provision for income taxes of \$794 million, which included a reduction in interest expense of \$157 million. The Company is no longer subject to U.S. federal income tax audit through fiscal 2007.

As a result of the IRS tax settlement, the amount of gross unrecognized tax benefits was reduced by approximately \$1.0 billion, of which \$154 million, which was previously paid by the Company, became certain as a result of completing the audit. The total amount of gross unrecognized tax benefits was \$1.9 billion as of January 26, 2013, of which \$1.6 billion would affect the effective tax rate if realized. Although timing of the resolution of audits is highly uncertain, the Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits as of January 26, 2013 will materially change in the next 12 months.

In the second quarter of fiscal 2013, the American Taxpayer Relief Act of 2012 reinstated the U.S. federal R&D tax credit, retroactive to January 1, 2012. As a result, during the three months ended January 26, 2013, the Company recognized total tax benefits of \$132 million, of which \$72 million related to fiscal 2012 R&D expenses.

**Goodwill And Purchased  
Intangible Assets (Schedule  
Of Purchased Intangible  
Assets With Finite And  
Indefinite Lives) (Detail)  
(USD \$)**

**Jan. 26, 2013 Jul. 28, 2012**

**In Millions, unless otherwise  
specified**

**Business Acquisition [Line Items]**

<u>Intangible Assets Gross Excluding Goodwill</u>	\$ 6,627	
<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	(3,085)	
<u>Intangible Assets, Net (Excluding Goodwill)</u>	3,542	1,959

Technology [Member]

**Business Acquisition [Line Items]**

<u>Intangible Assets Gross Excluding Goodwill</u>	3,400	2,267
<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	(1,154)	(908)
<u>Intangible Assets, Net (Excluding Goodwill)</u>	2,246	1,359

Customer Relationships [Member]

**Business Acquisition [Line Items]**

<u>Intangible Assets Gross Excluding Goodwill</u>	3,118	2,261
<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	(1,890)	(1,669)
<u>Intangible Assets, Net (Excluding Goodwill)</u>	1,228	592

Finite Lived Intangible Other [Member]

**Business Acquisition [Line Items]**

<u>Intangible Assets Gross Excluding Goodwill</u>	67	49
<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	(41)	(41)
<u>Intangible Assets, Net (Excluding Goodwill)</u>	26	8

Total Purchased Intangible Assets With Finite Lives [Member]

**Business Acquisition [Line Items]**

<u>Intangible Assets Gross Excluding Goodwill</u>	6,585	4,577
<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	(3,085)	(2,618)
<u>Intangible Assets, Net (Excluding Goodwill)</u>	3,500	1,959

In Process Research And Development With Indefinite Lives [Member]

**Business Acquisition [Line Items]**

<u>Finite-Lived Intangible Assets, Accumulated Amortization</u>	0	
<u>Gross In Process Research Development With Indefinite Lives</u>	42	
<u>Net In Process Research Development With Indefinite Lives</u>	\$ 42	

## Income Taxes (Tables)

**6 Months Ended**  
**Jan. 26, 2013**

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

#### [Income tax provision \[Table Text Block\]](#)

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Income before provision for (benefit from) income taxes	\$ 2,780	\$ 2,749	\$ 5,411	\$ 4,994
Provision for (benefit from) income taxes	\$ (363)	\$ 567	\$ 176	\$ 1,035
Effective tax rate	(13.1)%	20.6%	3.3%	20.7%

**Borrowings (Short-Term  
Debt) (Detail) (Notes  
Payable, Other Payables  
[Member], USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, 2013 Jul. 28, 2012**

Notes Payable, Other Payables [Member]

**Short-term Debt [Line Items]**

<u>Short-term debt</u>	\$ 37	\$ 31
<u>Short-term debt, weighted-average interest rate</u>	9.60%	6.72%

<b>Income Taxes - Additional Information (Detail) (USD \$)</b>	<b>3 Months Ended Jan. 26, 2013</b>	<b>6 Months Ended Jan. 26, 2013</b>	<b>12 Months Ended Jul. 28, 2012</b>
<a href="#"><u>Income Tax Disclosure [Abstract]</u></a>			
<a href="#"><u>Tax benefits and R&amp;D tax credit</u></a>		\$ 926,000,000	
<a href="#"><u>Increase (Decrease) in Income Taxes Receivable</u></a>	733,000,000		
<a href="#"><u>Tax Adjustments, Settlements, and Unusual Provisions</u></a>	794,000,000		
<a href="#"><u>Income Tax Examination, Penalties and Interest Expense</u></a>	157,000,000		
<a href="#"><u>Unrecognized Tax Benefits, Decreases Resulting from Settlements with Taxing Authorities</u></a>	1,000,000,000		
<a href="#"><u>Tax amounts previously paid to tax authorities became refundable</u></a>	154,000,000		
<a href="#"><u>Unrecognized Tax Benefits</u></a>	1,900,000,000	1,900,000,000	
<a href="#"><u>Unrecognized tax benefits that would impact tax rate</u></a>	1,600,000,000	1,600,000,000	
<a href="#"><u>Income Tax Reconciliation, Tax Credits, Research</u></a>	\$ 132,000,000		\$ 72,000,000

## Borrowings (Tables)

## 6 Months Ended Jan. 26, 2013

### [Debt Disclosure \[Abstract\]](#) [Schedule Of Short-Term Debt](#)

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

	January 26, 2013		July 28, 2012	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Other notes and borrowings	\$ 37	9.60%	\$ 31	6.72%

### [Schedule Of Long-Term Debt](#)

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

	January 26, 2013		July 28, 2012	
	Amount	Effective Rate	Amount	Effective Rate
<b>Senior Notes:</b>				
Floating-rate notes, due 2014	\$ 1,250	0.57%	\$ 1,250	0.81%
1.625% fixed-rate notes, due 2014	2,000	0.68%	2,000	0.84%
2.90% fixed-rate notes, due 2014	500	3.11%	500	3.11%
5.50% fixed-rate notes, due 2016	3,000	3.08%	3,000	3.16%
3.15% fixed-rate notes, due 2017	750	0.87%	750	1.03%
4.95% fixed-rate notes, due 2019	2,000	5.08%	2,000	5.08%
4.45% fixed-rate notes, due 2020	2,500	4.50%	2,500	4.50%
5.90% fixed-rate notes, due 2039	2,000	6.11%	2,000	6.11%
5.50% fixed-rate notes, due 2040	2,000	5.67%	2,000	5.67%
<b>Total</b>	<b>16,000</b>		<b>16,000</b>	
Other long-term debt	10	0.19%	10	0.19%
Unaccreted discount	(67)		(70)	
Hedge accounting fair value adjustments	311		357	
<b>Total long-term debt</b>	<b>\$16,254</b>		<b>\$16,297</b>	

### [Schedule Of Principal Payments For Long-Term Debt](#)

Future principal payments for long-term debt as of January 26, 2013 are summarized as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ —
2014	3,260
2015	500

2016	3,000
2017	750
Thereafter	8,500
Total	<u>\$ 16,010</u>

**Goodwill And Purchased  
Intangible Assets (Schedule  
Of Estimated Future  
Amortization Expense Of  
Purchased Intangible Assets)  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26,  
2013**

**Disclosure Goodwill And Purchased Intangible Assets Schedule Of Estimated Future  
Amortization Expense Of Purchased Intangible Assets [Abstract]**

<u>2013 (remaining six months)</u>	\$ 467
<u>2014</u>	840
<u>2015</u>	760
<u>2016</u>	533
<u>2017</u>	380
<u>Thereafter</u>	520
<u>Total</u>	\$ 3,500



Investments (Realized Net Gains (Losses) Related To Available-For-Sale Investments) (Detail) (USD \$) In Millions, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012
	<a href="#">Net gains (losses) on investments</a> Publicly Traded Equity Securities [Member]	\$ 13	\$ 37	\$ 40
<a href="#">Net gains (losses) on investments</a> Fixed Income Investments [Member]	4	31	14	15
<a href="#">Net gains (losses) on investments</a>	\$ 9	\$ 6	\$ 26	\$ 31

**Financing Receivables And  
Guarantees (Schedule Of  
Financing Receivables By  
Portfolio Segment And Class  
Aging Analysis) (Detail)  
(USD \$)**

**In Millions, unless otherwise  
specified**

	Jan. 26, 2013	Jul. 28, 2012	Jan. 28, 2012
<b><u>Financing Receivable, Recorded Investment, Past Due [Line Items]</u></b>			
<u>Class Of Financing Receivable Thirty One To Sixty Days Past Due</u>	\$ 499	\$ 250	
<u>Class Of Financing Receivable Sixty One To Ninety Days Past Due</u>	74	145	
<u>Financing Receivable, Recorded Investment, Equal to Greater than 90 Days Past Due</u>	492	576	
<u>Financing Receivable, Recorded Investment, Past Due</u>	1,065	971	
<u>Class Of Financing Receivable Current</u>	7,027	6,655	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	8,092	7,626	
<u>Financing Receivable, Recorded Investment, Nonaccrual Status</u>	102	45	
<u>Impaired Financing Receivable, Recorded Investment</u>	78	28	
Lease Receivables [Member]			
<b><u>Financing Receivable, Recorded Investment, Past Due [Line Items]</u></b>			
<u>Class Of Financing Receivable Thirty One To Sixty Days Past Due</u>	182	151	
<u>Class Of Financing Receivable Sixty One To Ninety Days Past Due</u>	34	69	
<u>Financing Receivable, Recorded Investment, Equal to Greater than 90 Days Past Due</u>	230	173	
<u>Financing Receivable, Recorded Investment, Past Due</u>	446	393	
<u>Class Of Financing Receivable Current</u>	2,998	2,786	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	3,444	3,179	3,049
<u>Financing Receivable, Recorded Investment, Nonaccrual Status</u>	49	23	
<u>Impaired Financing Receivable, Recorded Investment</u>	33	14	
Loan Receivables [Member]			
<b><u>Financing Receivable, Recorded Investment, Past Due [Line Items]</u></b>			
<u>Class Of Financing Receivable Thirty One To Sixty Days Past Due</u>	12	10	
<u>Class Of Financing Receivable Sixty One To Ninety Days Past Due</u>	3	8	
<u>Financing Receivable, Recorded Investment, Equal to Greater than 90 Days Past Due</u>	11	11	
<u>Financing Receivable, Recorded Investment, Past Due</u>	26	29	
<u>Class Of Financing Receivable Current</u>	1,759	1,767	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	1,785	1,796	1,673
<u>Financing Receivable, Recorded Investment, Nonaccrual Status</u>	32	4	
<u>Impaired Financing Receivable, Recorded Investment</u>	32	4	
Financed Service Contracts And Other [Member]			
<b><u>Financing Receivable, Recorded Investment, Past Due [Line Items]</u></b>			
<u>Class Of Financing Receivable Thirty One To Sixty Days Past Due</u>	305	89	
<u>Class Of Financing Receivable Sixty One To Ninety Days Past Due</u>	37	68	

<u>Financing Receivable, Recorded Investment, Equal to Greater than 90 Days Past Due</u>	251	392	
<u>Financing Receivable, Recorded Investment, Past Due</u>	593	549	
<u>Class Of Financing Receivable Current</u>	2,270	2,102	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	2,863	2,651	2,666
<u>Financing Receivable, Recorded Investment, Nonaccrual Status</u>	21	18	
<u>Impaired Financing Receivable, Recorded Investment</u>	\$ 13	\$ 10	

**Business Combinations -  
Additional Information  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26, 2013 Jan. 28, 2012 Apr. 27, 2013**

**Business Acquisition [Line Items]**

<u>Business Combination, Consideration Transferred</u>	\$ 1,207		
<u>Cash Acquired from Acquisition</u>	131		
<u>Business Combination, Acquisition Related Costs</u>	17	2	
<u>Business Acquisition, Cost of Acquired Entity, Purchase Price</u>			475

NDS Group Limited [Member]

**Business Acquisition [Line Items]**

<u>Business Combination, Consideration Transferred</u>	5,005		
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Meraki, Inc. [Member]

**Business Acquisition [Line Items]**

<u>Business Combination, Consideration Transferred</u>	974		
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Other Acquisition [Member]

**Business Acquisition [Line Items]**

<u>Number of Businesses Acquired</u>	7		
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<u>Business Combination, Consideration Transferred</u>	\$ 233		
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**Consolidated Statements Of  
Equity Consolidated  
Statements of Equity  
(Parenthetical) (USD \$)  
Share data in Millions,  
except Per Share data, unless  
otherwise specified**

**6 Months Ended**

**Jan. 26, 2013    Jan. 28, 2012**

<a href="#"><u>Aggregate Authorized Common Stock Repurchase</u></a>	\$ 82,000,000,000	
<a href="#"><u>Common Stock, Dividends, Per Share, Declared</u></a>	\$ 0.28	\$ 0.12
<a href="#"><u>Cumulative stock repurchased and retired shares</u></a>	3,780	
<a href="#"><u>Cumulative Stock Repurchased And Retired Value</u></a>	76,886,000,000	
Parent [Member]		
<a href="#"><u>Cumulative Stock Repurchased And Retired Value</u></a>	76,886,000,000	
Retained Earnings [Member]		
<a href="#"><u>Cumulative Stock Repurchased And Retired Value</u></a>	59,547,000,000	
Common Stock Including Additional Paid in Capital [Member]		
<a href="#"><u>Cumulative Stock Repurchased And Retired Value</u></a>	\$ 17,339,000,000	
Common Stock [Member]		
<a href="#"><u>Cumulative stock repurchased and retired shares</u></a>	3,780	

<b>Financing Receivables And Guarantees (Allowance For Credit Loss And Related Financing Receivables) (Detail) (USD \$)</b> <b>In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>				
	<b>Jan. 26, 2013</b>	<b>Oct. 27, 2012</b>	<b>Jan. 28, 2012</b>	<b>Oct. 29, 2011</b>	<b>Jul. 28, 2012</b>
<u><b>Financing Receivable, Allowance for Credit Losses [Roll Forward]</b></u>					
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	\$ 8,092				\$ 7,626
Lease Receivables [Member]					
<u><b>Financing Receivable, Allowance for Credit Losses [Roll Forward]</b></u>					
<u>Financing Receivable, Allowance for Credit Losses Provisions</u>	248 (1)	247 (2)	233 18	237 2	
<u>Foreign exchange and other</u>	0	3	(1)	(6)	
<u>Financing Receivable, Allowance for Credit Losses</u>	247	248	250	233	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	3,444		3,049		3,179
Loan Receivables [Member]					
<u><b>Financing Receivable, Allowance for Credit Losses [Roll Forward]</b></u>					
<u>Financing Receivable, Allowance for Credit Losses Provisions</u>	114 (14)	122 (10)	103 4	103 5	
<u>Foreign exchange and other</u>	1	2	3	(5)	
<u>Financing Receivable, Allowance for Credit Losses</u>	101	114	110	103	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	1,785		1,673		1,796
Financed Service Contracts And Other [Member]					
<u><b>Financing Receivable, Allowance for Credit Losses [Roll Forward]</b></u>					
<u>Financing Receivable, Allowance for Credit Losses Provisions</u>	12 2	11 1	29 (18)	27 2	
<u>Foreign exchange and other</u>	(1)	0	(2)	0	
<u>Financing Receivable, Allowance for Credit Losses</u>	13	12	9	29	
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	2,863		2,666		2,651
Total Allowance [Member]					
<u><b>Financing Receivable, Allowance for Credit Losses [Roll Forward]</b></u>					
<u>Financing Receivable, Allowance for Credit Losses Provisions</u>	374 (13)	380 (11)	365 4	367 9	
<u>Foreign exchange and other</u>	0	5	0	(11)	
<u>Financing Receivable, Allowance for Credit Losses</u>	361	374	369	365	

Capital Leases, Net Investment in Direct Financing  
Leases

\$ 8,092

\$ 7,388

**Segment Information And  
Major Customers (Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Reconciliation from Segment  
Totals to Consolidated](#)

[\[Abstract\]](#)

[Reportable Segments](#)

Summarized financial information by segment for the three and six months ended January 26, 2013 and January 28, 2012, based on the Company's internal management system and as utilized by the Company's Chief Operating Decision Maker ("CODM"), is as follows (in millions):

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Net sales:</b>				
Americas	\$ 7,136	\$ 6,552	\$ 14,159	\$ 13,140
EMEA	3,093	3,250	5,934	6,095
APJC	1,869	1,725	3,881	3,548
Total	<u>\$ 12,098</u>	<u>\$ 11,527</u>	<u>\$ 23,974</u>	<u>\$ 22,783</u>
<b>Gross margin:</b>				
Americas	4,413	4,106	8,881	8,266
EMEA	2,008	2,095	3,806	3,849
APJC	1,121	992	2,297	2,100
Segment total	<u>7,542</u>	<u>7,193</u>	<u>14,984</u>	<u>14,215</u>
Unallocated corporate items	(199)	(128)	(402)	(260)
Total	<u>\$ 7,343</u>	<u>\$ 7,065</u>	<u>\$ 14,582</u>	<u>\$ 13,955</u>

[Segment Reporting Product  
And Services Net Sales \[Text  
Block\]](#)

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Net sales:</b>				
Switching	\$ 3,724	\$ 3,621	\$ 7,340	\$ 7,308
NGN Routing	1,946	2,068	3,998	4,162
Service Provider Video	1,220	1,014	2,368	1,897
Collaboration	945	1,060	1,965	2,168
Data Center	548	333	965	592
Wireless	520	409	1,006	762
Security	336	333	674	652
Other	198	280	418	529
Product	<u>9,437</u>	<u>9,118</u>	<u>18,734</u>	<u>18,070</u>
Service	<u>2,661</u>	<u>2,409</u>	<u>5,240</u>	<u>4,713</u>
Total	<u>\$ 12,098</u>	<u>\$ 11,527</u>	<u>\$ 23,974</u>	<u>\$ 22,783</u>

[Entity Wide Disclosure On  
Geographic Areas Long Lived  
Assets \[Text Block\]](#)

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

	January 26, 2013	July 28, 2012
Property and equipment, net:		



United States	\$ 2,808	\$ 2,842
International	595	560
Total	<u>\$ 3,403</u>	<u>\$ 3,402</u>

**Supplemental Information  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Stockholders' Equity Note \[Abstract\]](#)  
[Stock Repurchases Since Inception Of  
Program \[Table Text Block\]](#)

The stock repurchases since the inception of this program and the related impacts on Cisco shareholders' equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Total Cisco Shareholders' Equity
Repurchases of common stock under the repurchase program	3,780	\$ 17,339	\$ 59,547	\$ 76,886

**Summary of Significant  
Accounting Policies (Policies)**

**6 Months Ended  
Jan. 26, 2013**

**Summary of Significant  
Accounting Policies**

**[Abstract]**

**Accounting Changes and Error  
Corrections [Text Block]**

**(a) New Accounting Updates Recently Adopted**

In June 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to provide guidance on increasing the prominence of items reported in other comprehensive income, which eliminated the option to present components of other comprehensive income as part of the statement of equity. The Company adopted this accounting standard in the first quarter of fiscal 2013.

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

**(b) Recent Accounting Standards or Updates Not Yet Effective**

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

In July 2012, the FASB issued an accounting standard update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, and early adoption is permitted. The adoption of this accounting standard update is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, at which time the Company will include the required disclosures.

**Description of New  
Accounting Pronouncements  
Not yet Adopted [Text Block]**

<b>Segment Information And Major Customers (Reportable Segments) (Detail) (USD \$) In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Revenue, Net</a>	\$ 12,098	\$ 11,527	\$ 23,974	\$ 22,783
<a href="#">Gross Profit</a>	7,343	7,065	14,582	13,955
United States [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Revenue, Net</a>	6,100	5,600	12,200	11,200
Segment Reporting Information Net Sales [Member]   Americas [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Revenue, Net</a>	7,136	6,552	14,159	13,140
<a href="#">Gross Profit</a>	4,413	4,106	8,881	8,266
Segment Reporting Information Net Sales [Member]   Europe Middle East And Africa [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Revenue, Net</a>	3,093	3,250	5,934	6,095
<a href="#">Gross Profit</a>	2,008	2,095	3,806	3,849
Segment Reporting Information Net Sales [Member]   Asia Pacific Japan And China [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Revenue, Net</a>	1,869	1,725	3,881	3,548
<a href="#">Gross Profit</a>	1,121	992	2,297	2,100
Segment Reporting Information Gross Margin [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Gross Profit</a>	7,542	7,193	14,984	14,215
Segment Reporting Information Gross Margin [Member]   Unallocated Amount to Segment [Member]				
<a href="#">Segment Reporting Information [Line Items]</a>				
<a href="#">Gross Profit</a>	\$ (199)	\$ (128)	\$ (402)	\$ (260)

**Balance Sheet Details**  
**Balance Sheet Details**  
**(Parenthetical) (Detail) (USD**  
**)**

**Jan. 26, 2013 Jul. 28, 2012**

**In Millions, unless otherwise  
specified**

**[Disclosure Balance Sheet Details \[Abstract\]](#)**

**[Property Subject to or Available for Operating Lease, Accumulated Depreciation](#) \$ 186**

**\$ 181**

**Net Income Per Share  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

**Earnings Per Share [Abstract]**

**Calculation Of Basic And Diluted Net  
Income Per Share**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Net income	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
Weighted-average shares - basic	5,318	5,368	5,310	5,381
Effect of dilutive potential common shares	39	33	34	23
Weighted-average shares - diluted	5,357	5,401	5,344	5,404
Net income per share - basic	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
Net income per share - diluted	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
Antidilutive employee share-based awards, excluded	324	532	519	692

**Business Combinations  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Business Combinations](#)

[\[Abstract\]](#)

[Schedule of Purchase Price  
Allocation](#)

The following table summarizes the purchase consideration for the NDS acquisition (in millions):

	Fair Value
Cash consideration to seller	\$ 4,012
Repayment of NDS debt to third party creditors	993
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

[Purchase Consideration  
Summary \(NDS\)](#)

A summary of the preliminary allocation of the total purchase consideration for NDS is presented as follows (in millions):

	Fair Value
Cash and cash equivalents	\$ 98
Accounts receivable, net	199
Other tangible assets	268
Goodwill	3,444
Purchased intangible assets	1,746
Deferred tax liabilities, net	(378)
Liabilities assumed	(372)
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

[Schedule of Business  
Acquisitions, by Acquisition](#)

The Company completed seven additional business combinations during the six months ended January 26, 2013. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Purchase Consideration	Net Liabilities Assumed	Purchased Intangible Assets	Goodwill
Meraki Inc.	\$ 974	\$ (59)	\$ 289	\$ 744
All others (six in total)	233	(15)	72	176
<b>Total other acquisitions</b>	<b>\$ 1,207</b>	<b>\$ (74)</b>	<b>\$ 361</b>	<b>\$ 920</b>

**Goodwill And Purchased  
Intangible Assets (Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Goodwill and Intangible  
Assets Disclosure \[Abstract\]](#)

[Goodwill By Reportable  
Segment](#)

The following table presents the goodwill allocated to the Company's reportable segments as of and during the six months ended January 26, 2013 (in millions):

	Balance at July 28, 2012	NDS Acquisition	Other Acquisitions	Other	Balance at January 26, 2013
Americas	\$ 11,755	\$ 1,230	\$ 520	\$ (1)	\$ 13,504
EMEA	3,287	1,327	266	—	4,880
APJC	1,956	887	134	—	2,977
Total	\$ 16,998	\$ 3,444	\$ 920	\$ (1)	\$ 21,361

In the preceding table, the column entitled "Other" primarily relates to purchase accounting adjustments.

[Schedule Of Intangible Assets  
Acquired As Part Of Business  
Combination](#)

The following table presents details of the Company's intangible assets acquired through business combinations completed during the six months ended January 26, 2013 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES		TOTAL
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D		
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Amount		
NDS Group Limited	6.4	\$ 807	6.7	\$ 818	7.4	\$ 27	\$ 94	\$1,746	
Meraki Inc.	8.0	259	6.0	30	—	—	—	289	
All other acquisitions	4.7	45	5.6	12	7.0	1	14	72	
Total		\$1,111		\$ 860		\$ 28	\$ 108	\$2,107	

[Schedule Of Purchased  
Intangible Assets](#)

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

January 26, 2013	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 3,400	\$ (1,154)	\$ 2,246
Customer relationships	3,118	(1,890)	1,228
Other	67	(41)	26
Total purchased intangible assets with finite lives	6,585	(3,085)	3,500
In-process research and development, with indefinite lives	42	—	42
Total	\$ 6,627	\$ (3,085)	\$ 3,542

July 28, 2012	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 2,267	\$ (908)	\$ 1,359
Customer relationships	2,261	(1,669)	592
Other	49	(41)	8
Total	\$ 4,577	\$ (2,618)	\$ 1,959

[Schedule Of Amortization Of  
Purchased Intangible Assets](#)

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



	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Amortization of purchased intangible assets:				
Cost of sales	\$ 145	\$ 99	\$ 288	\$ 195
Operating expenses	118	97	240	196
Total	\$ 263	\$ 196	\$ 528	\$ 391

[Schedule Of Estimated Future Amortization Expense Of Purchased Intangible Assets](#)

The estimated future amortization expense of purchased intangible assets with finite lives as of January 26, 2013 is as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 467
2014	840
2015	760
2016	533
2017	380
Thereafter	520
Total	\$ 3,500

Consolidated Statements Of Equity (USD \$) In Millions, unless otherwise specified	Total USD (\$)	Common Stock [Member]	Common Stock Including Additional Paid in Capital [Member] USD (\$)	Retained Earnings [Member] USD (\$)	Accumulated Other Comprehensive Income (Loss) [Member] USD (\$)	Stockholder Equity Excluding Portion Attributable To Noncontrolling Interest [Member] USD (\$)	Noncontrolling Interest [Member] USD (\$)
<a href="#">Stockholders' Equity Attributable to Noncontrolling Interest at Jul. 30, 2011</a>							\$ 33
<a href="#">Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest at Jul. 30, 2011</a>	47,259						
<a href="#">Shares, Issued at Jul. 30, 2011</a>		5,435					
<a href="#">Stockholders' Equity Excluding Portion Attributable to Noncontrolling Interest at Jul. 30, 2011</a>			38,648	7,284	1,294	47,226	
<b><a href="#">Increase (Decrease) in Stockholders' Equity [Roll Forward]</a></b>							
<a href="#">Net Income (Loss) Attributable to Parent</a>	3,959			3,959		3,959	
<b><a href="#">Other Comprehensive Income (Loss), Net of Tax [Abstract]</a></b>							
<a href="#">Other Comprehensive Income (Loss), Net of Tax</a>	(458)				(444)	(444)	
<a href="#">Other Comprehensive Income (Loss), Net of Tax, Portion Attributable to Noncontrolling Interest</a>							(14)
<a href="#">Stock Issued During Period, Shares, New Issues</a>		78					
<a href="#">Stock Issued During Period, Value, New Issues</a>	653		653			653	
<a href="#">Repurchased Shares And Retired During Period Shares</a>		(126)					
<a href="#">Stock Repurchased During Period, Value</a>	(2,010)		(901)	(1,109)		(2,010)	
<a href="#">Shares Repurchased In Settlement Of Employee Tax Withholding Obligations Shares</a>		(9)					

<a href="#">Stock Repurchased for tax withholdings on vesting of restricted stock units, value</a>	(145)	(145)			(145)
<a href="#">Cash dividends declared (\$0.28 per common share)</a>	(644)		(644)		(644)
<a href="#">Adjustments to Additional Paid in Capital, Income Tax Benefit from Share-based Compensation</a>	(48)	(48)			(48)
<a href="#">Adjustments to Additional Paid in Capital, Share-based Compensation, Requisite Service Period Recognition</a>	695	695			695
<a href="#">Stock Issued During Period, Value, Acquisitions</a>	4	4			4
<a href="#">Stockholders' Equity Attributable to Noncontrolling Interest at Jan. 28, 2012</a>					19
<a href="#">Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest at Jan. 28, 2012</a>	49,265				
<a href="#">Shares, Issued at Jan. 28, 2012</a>	5,378				
<a href="#">Stockholders' Equity Excluding Portion Attributable to Noncontrolling Interest at Jan. 28, 2012</a>		38,906	9,490	850	49,246
<a href="#">Stockholders' Equity Attributable to Noncontrolling Interest at Jul. 28, 2012</a>	15				15
<a href="#">Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest at Jul. 28, 2012</a>	51,301				
<a href="#">Shares, Issued at Jul. 28, 2012</a>	5,298				
<a href="#">Stockholders' Equity Excluding Portion Attributable to Noncontrolling Interest at Jul. 28, 2012</a>		39,271	11,354	661	51,286
<b><a href="#">Increase (Decrease) in Stockholders' Equity [Roll Forward]</a></b>					
<a href="#">Net Income (Loss) Attributable to Parent</a>	5,235		5,235		5,235
<b><a href="#">Other Comprehensive Income (Loss), Net of Tax [Abstract]</a></b>					
<a href="#">Other Comprehensive Income (Loss), Net of Tax</a>	232		237		237
<a href="#">Other Comprehensive Income (Loss), Net of Tax, Portion</a>					(5)

<u>Attributable to Noncontrolling Interest</u>					
<u>Stock Issued During Period, Shares, New Issues</u>	76				
<u>Stock Issued During Period, Value, New Issues</u>	652	652		652	
<u>Repurchased Shares And Retired During Period Shares</u>	(40)				
<u>Stock Repurchased During Period, Value</u>	(753)	(298)	(455)	(753)	
<u>Shares Repurchased In Settlement Of Employee Tax Withholding Obligations</u>	(11)				
<u>Stock Repurchased for tax withholdings on vesting of restricted stock units, value</u>	(212)	(212)		(212)	
<u>Cash dividends declared (\$0.28 per common share)</u>	(1,487)		(1,487)	(1,487)	
<u>Adjustments to Additional Paid in Capital, Income Tax Benefit from Share-based Compensation</u>	(97)	(97)		(97)	
<u>Adjustments to Additional Paid in Capital, Share-based Compensation, Requisite Service Period Recognition</u>	608	608		608	
<u>Stock Issued During Period, Value, Acquisitions</u>	46	46		46	
<u>Stockholders' Equity Attributable to Noncontrolling Interest at Jan. 26, 2013</u>	10				10
<u>Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest at Jan. 26, 2013</u>	55,525				
<u>Shares, Issued at Jan. 26, 2013</u>	5,323				
<u>Stockholders' Equity Excluding Portion Attributable to Noncontrolling Interest at Jan. 26, 2013</u>		\$ 39,970	\$ 14,647	\$ 898	\$ 55,515

**Restructuring And Other  
Charges (Tables)**

**6 Months Ended  
Jan. 26, 2013**

**Restructuring Charges**

**[Abstract]**

**Schedule of Restructuring and  
Related Costs**

The following table summarizes the activities related to the restructuring and other charges pursuant to the Company's July 2011 announcement related to the realignment and restructuring of the Company's business as well as certain consumer product lines as announced during April 2011 (in millions):

	Voluntary Early Retirement Program	Employee Severance	Goodwill and Intangible Assets	Other	Total
Gross charges in fiscal 2011	\$ 453	\$ 247	\$ 71	\$ 28	\$ 799
Cash payments	(436)	(13)	—	—	(449)
Non-cash items	—	—	(71)	(17)	(88)
BALANCE AT JULY 30, 2011	\$ 17	\$ 234	\$ —	\$ 11	\$ 262
Gross charges in fiscal 2012	—	299	—	54	353
Change in estimate related to fiscal 2011 charges	—	(49)	—	—	(49)
Cash payments	(17)	(401)	—	(18)	(436)
Non-cash items	—	—	—	(20)	(20)
BALANCE AT JULY 28, 2012	\$ —	\$ 83	\$ —	\$ 27	\$ 110
Charges in fiscal 2013	—	77	—	(5)	72
Cash payments	—	(139)	—	(10)	(149)
Non-cash items	—	—	—	(3)	(3)
BALANCE AT JANUARY 26, 2013	\$ —	\$ 21	\$ —	\$ 9	\$ 30

**Derivative Instruments  
(Schedule Of Notional  
Amounts Of Derivatives  
Outstanding) (Details) (USD  
\$)  
In Millions, unless otherwise  
specified**

**Jan. 26, Jul. 28,  
2013 2012**

**Notional Amount of Derivatives [Abstract]**

<u>Notional Amount of Foreign Currency Cash Flow Hedge Derivatives</u>	\$ 1,646	\$ 2,910
<u>Notional amount of interest rate derivatives</u>	4,250	4,250
<u>Notional Amount of Derivative Instruments Designated as Net Investment Hedges</u>	325	468
<u>Notional Amount of Price Risk Fair Value Hedge Derivatives</u>	629	272
<u>Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments</u>	4,231	6,241
<u>Notional Amount Of Total Return Swaps Deferred Compensation Derivative Instruments Not Designated As Hedging Instruments</u>	324	269
<u>Notional amounts of derivatives outstanding</u>	\$ 11,405	\$ 14,410

Shareholders' Equity  
(Tables)

6 Months Ended  
Jan. 26, 2013

[Stockholders' Equity Note](#)

[\[Abstract\]](#)

[Stock Repurchase Program](#)

A summary of the stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted- Average Price per Share	Amount Repurchased
Cumulative balance at July 28, 2012	3,740	\$ 20.36	\$ 76,133
Repurchase of common stock under the stock repurchase program	40	18.73	753
Cumulative balance at January 26, 2013	3,780	\$ 20.34	\$ 76,886

[Components Of AOCI, Net Of Tax](#)

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest, for the six months ended January 26, 2013 and January 28, 2012 are summarized as follows (in millions):

	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 28, 2012	\$ 409	\$ (53)	\$ 305	\$ 661
Other comprehensive income attributable to Cisco Systems, Inc.	52	65	120	237
BALANCE AT JANUARY 26, 2013	\$ 461	\$ 12	\$ 425	\$ 898

	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 30, 2011	\$ 487	\$ 6	\$ 801	\$ 1,294
Other comprehensive loss attributable to Cisco Systems, Inc.	(59)	(68)	(317)	(444)
BALANCE AT JANUARY 28, 2012	\$ 428	\$ (62)	\$ 484	\$ 850

**Restructuring And Other  
Charges (Additional  
Information) (Detail) (USD  
\$)** **Jan. 26, 2013**

**In Billions, unless otherwise  
specified**

**Restructuring Charges [Abstract]**

**Pre Tax Restructuring Charge** \$ 1.1



**Fair Value (Reconciliation  
For All Assets Measured At  
Fair Value On A Recurring  
Basis Using Significant  
Unobservable Inputs (Level  
3)) (Detail) (Fair Value,  
Inputs, Level 3 [Member],  
USD \$)  
In Millions, unless otherwise  
specified**

**6 Months  
Ended**

**Jan. 28,  
2012**

**Fair Value, Assets Measured on Recurring Basis, Unobservable Input Reconciliation, Calculation [Roll Forward]**

<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value</a>	\$ 123
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Earnings</a>	3
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Other Comprehensive Income (Loss)</a>	(3)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Purchases, Sales, Issuances, Settlements</a>	(15)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Transfers out of Level 3</a>	(107)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value Asset-backed Securities [Member]</a>	1

**Fair Value, Assets Measured on Recurring Basis, Unobservable Input Reconciliation, Calculation [Roll Forward]**

<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value</a>	121
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Earnings</a>	3
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Other Comprehensive Income (Loss)</a>	(3)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Purchases, Sales, Issuances, Settlements</a>	(14)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Transfers out of Level 3</a>	(107)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value Derivative Assets [Member]</a>	0

**Fair Value, Assets Measured on Recurring Basis, Unobservable Input Reconciliation, Calculation [Roll Forward]**

<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value</a>	2
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Purchases, Sales, Issuances, Settlements</a>	(1)
<a href="#">Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value</a>	\$ 1

**Consolidated Balance Sheets**  
**(USD \$)**  
**In Millions, unless otherwise**  
**specified**

	<b>Jan.</b>	<b>Jul.</b>
	<b>26,</b>	<b>28,</b>
	<b>2013</b>	<b>2012</b>
<b><u>Current assets:</u></b>		
<u>Cash and cash equivalents</u>	\$	\$
	6,847	9,799
<u>Investments</u>	39,529	38,917
<u>Accounts receivable, net of allowance for doubtful accounts of \$218 at January 26, 2013 and \$207 at July 28, 2012</u>	4,462	4,369
<u>Inventories</u>	1,574	1,663
<u>Financing receivables, net</u>	3,894	3,661
<u>Deferred tax assets</u>	2,297	2,294
<u>Other current assets</u>	2,122	1,230
<u>Total current assets</u>	60,725	61,933
<u>Property and equipment, net</u>	3,403	3,402
<u>Financing receivables, net</u>	3,837	3,585
<u>Goodwill</u>	21,361	16,998
<u>Purchased intangible assets, net</u>	3,542	1,959
<u>Other assets</u>	3,510	3,882
<b><u>TOTAL ASSETS</u></b>	<b>96,378</b>	<b>91,759</b>
<b><u>Current liabilities:</u></b>		
<u>Short-term debt</u>	37	31
<u>Accounts payable</u>	890	859
<u>Income taxes payable</u>	87	276
<u>Accrued compensation</u>	2,921	2,928
<u>Deferred revenue</u>	9,108	8,852
<u>Other current liabilities</u>	4,907	4,785
<u>Total current liabilities</u>	17,950	17,731
<u>Long-term debt</u>	16,254	16,297
<u>Income taxes payable</u>	1,340	1,844
<u>Deferred revenue</u>	4,213	4,028
<u>Other long-term liabilities</u>	1,096	558
<u>Total liabilities</u>	40,853	40,458
<u>Commitments and contingencies (Note 12)</u>		
<b><u>Cisco shareholders' equity:</u></b>		
<u>Preferred stock, no par value: 5 shares authorized; none issued and outstanding</u>	0	0
<u>Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 5,323 and 5,298 shares issued and outstanding at January 26, 2013 and July 28, 2012, respectively</u>	39,970	39,271
<u>Retained earnings</u>	14,647	11,354
<u>Accumulated other comprehensive income</u>	898	661
<u>Total Cisco shareholders' equity</u>	55,515	51,286
<u>Noncontrolling interests</u>	10	15
<u>Total equity</u>	55,525	51,301

TOTAL LIABILITIES AND EQUITY

\$ \$  
96,378 91,759

**Supplemental Information  
Additional Information  
(Detail) (USD \$)  
Share data in Millions,  
unless otherwise specified**

**Jan. 26, 2013      Jul. 28, 2012**

**Supplementary Information[Line Items]**

<u>Aggregate Authorized Common Stock Repurchase</u>	\$ 82,000,000,000	
<u>Repurchases of common stock under the repurchase program, shares</u>	3,780	3,740
<u>Repurchases of common stock under the repurchase program, value</u>	76,886,000,000	76,133,000,000
Common Stock [Member]		

**Supplementary Information[Line Items]**

<u>Repurchases of common stock under the repurchase program, shares</u>	3,780	
Common Stock Including Additional Paid in Capital [Member]		

**Supplementary Information[Line Items]**

<u>Repurchases of common stock under the repurchase program, value</u>	17,339,000,000	
Retained Earnings [Member]		

**Supplementary Information[Line Items]**

<u>Repurchases of common stock under the repurchase program, value</u>	59,547,000,000	
Parent [Member]		

**Supplementary Information[Line Items]**

<u>Repurchases of common stock under the repurchase program, value</u>	\$ 76,886,000,000	
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**Employee Benefit Plans  
(Summary Assumptions  
Related To And Valuation Of  
Employee Share-Based  
Awards (Time-Based  
Restricted Stock Units))  
(Detail) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

<b>3 Months Ended</b>		<b>6 Months Ended</b>	
<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>

Time Based Restricted Stock Units R S U [Member]

**Share-based Compensation Arrangement by Share-based Payment Award  
[Line Items]**

Share-based Compensation Arrangement by Share-based Payment Award, Fair  
Value Assumptions, Expected Dividend Rate

3.10%	1.30%	3.00%	1.30%
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Time Based Restricted Stock Units R S U [Member]

**Share-based Compensation Arrangement by Share-based Payment Award  
[Line Items]**

Share-based Compensation Arrangement by Share-based Payment Award, Equity  
Instruments Other than Options, Grants in Period

37	33	48	44
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Share-based Compensation Arrangement by Share-based Payment Award, Equity  
Instruments Other than Options, Grants in Period, Weighted Average Grant Date  
Fair Value

17.07	17.88	17.20	17.34
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**Consolidated  
Comprehensive Income  
(Parenthetical) (USD \$)  
In Millions, unless otherwise  
specified**

**3 Months Ended 6 Months Ended  
Jan. 26, Jan. 28, Jan. 26, Jan. 28,  
2013 2012 2013 2012**

**Other Comprehensive Income (Loss), Tax [Abstract]**

<u>Other Comprehensive Income (Loss), Unrealized Holding Gain (Loss) on Securities Arising During Period, Tax</u>	\$ (47)	\$ 2	\$ (46)	\$ 28
<u>Other Comprehensive Income (Loss), Reclassification Adjustment for Sale of Securities Included in Net Income, Tax</u>	5	14	14	16
<u>Other Comprehensive Income (Loss), Unrealized Gain (Loss) on Derivatives Arising During Period, Tax</u>	(1)		(1)	
<u>Change in cumulative translation tax effects</u>	\$ (5)	\$ (15)	\$ 10	\$ 31

**Employee Benefit Plans  
(Summary Of Stock Option  
Activity) (Detail) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

	<b>3 Months Ended Jan. 26, 2013</b>	<b>6 Months Ended Jan. 26, 2013</b>	<b>12 Months Ended Jul. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jul. 30, 2011</b>
<u>Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</u>					
<u>Share-based Compensation Arrangement by Share-based Payment Award, Options, Exercises in Period</u>		26	66		
<u>Share-based Compensation Arrangement by Share-based Payment Award, Options, Outstanding [Roll Forward]</u>					
<u>Beginning balance, Number Outstanding</u>		520	621	419	
<u>Granted and assumed, Number Outstanding</u>	7		1		
<u>Exercised, weighted-average exercise price per share</u>		\$ 15.25	\$ 13.51		
<u>Share-based Compensation Arrangement by Share-based Payment Award, Options, Forfeitures and Expirations in Period</u>		82	36		
<u>Canceled/forfeited/expired, weighted-average exercise price per share</u>		\$ 21.32	\$ 23.40		
<u>Weighted-average exercise price per share, ending balance</u>	\$ 23.08	\$ 23.08	\$ 22.68		\$ 21.79
<u>Share-based Compensation Arrangements by Share-based Payment Award, Options, Grants in Period, Weighted Average Exercise Price</u>	\$ 0.92		\$ 2.08		

**Financing Receivables And  
Guarantees (Contractual  
Maturities Of The Gross  
Lease Receivables) (Detail)  
(USD \$)**

**Jan. 26, 2013**

**In Millions, unless otherwise  
specified**

**Financing Receivable, Recorded Investment [Line Items]**

<u>2013 (remaining six months)</u>	\$ 878
<u>2014</u>	1,345
<u>2015</u>	863
<u>2016</u>	437
<u>2017</u>	194
<u>Total</u>	\$ 3,717



Segment Information And Major Customers - Additional Information (Detail) (USD \$)	3 Months Ended		6 Months Ended		
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jul. 28, 2012
<a href="#">Segment Reporting Information [Line Items]</a> <a href="#">Entity-Wide Disclosure on Geographic Areas, Basis for Attributing Revenue to Countries</a> <a href="#">Revenue, Net</a>	\$	\$	\$	\$	
	12,098,000,000	11,527,000,000	23,974,000,000	22,783,000,000	
United States [Member]					
<a href="#">Segment Reporting Information [Line Items]</a> <a href="#">Cash, Cash Equivalents, and Short-term Investments</a> <a href="#">Revenue, Net</a>	7,000,000,000		7,000,000,000		6,200,000,000
	6,100,000,000	5,600,000,000	12,200,000,000	11,200,000,000	
International [Member]					
<a href="#">Segment Reporting Information [Line Items]</a> <a href="#">Cash, Cash Equivalents, and Short-term Investments</a>	\$		\$		\$
	39,400,000,000		39,400,000,000		42,500,000,000

## Investments (Tables)

**6 Months Ended  
Jan. 26, 2013**

### [Investments \[Abstract\]](#)

### [Schedule of Available-for-sale Securities Reconciliation](#)

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

<u>January 26, 2013</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Fixed income securities:</b>				
U.S. government securities	\$ 25,147	\$ 31	\$ (1)	\$ 25,177
U.S. government agency securities	3,776	14	—	3,790
Non-U.S. government and agency securities	1,329	7	—	1,336
Corporate debt securities	7,021	99	(2)	7,118
Total fixed income securities	37,273	151	(3)	37,421
Publicly traded equity securities	1,484	628	(4)	2,108
Total	\$ 38,757	\$ 779	\$ (7)	\$ 39,529

<u>July 28, 2012</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Fixed income securities:</b>				
U.S. government securities	\$ 24,201	\$ 41	\$ (1)	\$ 24,241
U.S. government agency securities	5,367	21	—	5,388
Non-U.S. government and agency securities	1,629	9	—	1,638
Corporate debt securities	5,959	74	(3)	6,030
Total fixed income securities	37,156	145	(4)	37,297
Publicly traded equity securities	1,107	524	(11)	1,620
Total	\$ 38,263	\$ 669	\$ (15)	\$ 38,917

### [Schedule of Realized Gain \(Loss\)](#)

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>January 26, 2013</u>	<u>January 28, 2012</u>	<u>January 26, 2013</u>	<u>January 28, 2012</u>
Gross realized gains	\$ 191	\$ 188	\$ 263	\$ 424
Gross realized losses	(178)	(151)	(223)	(378)
Total	\$ 13	\$ 37	\$ 40	\$ 46

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>January 26, 2013</u>	<u>January 28, 2012</u>	<u>January 26, 2013</u>	<u>January 28, 2012</u>
Net gains (losses) on investments in publicly traded equity securities	\$ 4	\$ 31	\$ 14	\$ 15
Net gains on investments in fixed income securities	9	6	26	31
Total	\$ 13	\$ 37	\$ 40	\$ 46

### [Schedule of Unrealized Loss on Investments](#)

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at January 26, 2013 and July 28, 2012 (in millions):

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>January 26, 2013</u>						
Fixed income securities:						
U.S. government securities	\$ 2,617	\$ (1)	\$ —	\$ —	\$ 2,617	\$ (1)
Corporate debt securities	1,014	(2)	—	—	1,014	(2)
Total fixed income securities	3,631	(3)	—	—	3,631	(3)
Publicly traded equity securities	36	(4)	—	—	36	(4)
Total	\$ 3,667	\$ (7)	\$ —	\$ —	\$ 3,667	\$ (7)

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>July 28, 2012</u>						
Fixed income securities:						
U.S. government securities	\$ 5,357	\$ (1)	\$ —	\$ —	\$ 5,357	\$ (1)
Corporate debt securities	603	(3)	14	—	617	(3)
Total fixed income securities	5,960	(4)	14	—	5,974	(4)
Publicly traded equity securities	167	(8)	20	(3)	187	(11)
Total	\$ 6,127	\$ (12)	\$ 34	\$ (3)	\$ 6,161	\$ (15)

[Investments Classified by Contractual Maturity Date](#)

The following table summarizes the maturities of the Company's fixed income securities at January 26, 2013 (in millions):

	Amortized Cost	Fair Value
Less than 1 year	\$ 16,215	\$ 16,234
Due in 1 to 2 years	10,710	10,752
Due in 2 to 5 years	10,230	10,310
Due after 5 years	118	125
Total	\$ 37,273	\$ 37,421

**Investments (Summary Of  
Available-For-Sale  
Investments) (Detail) (USD  
\$)  
In Millions, unless otherwise  
specified**

**Jan. 26,  
2013**      **Jul. 28,  
2012**

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	\$ 38,757	\$ 38,263
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	779	669
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Losses</u></a>	(7)	(15)
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	39,529	38,917

Equity Securities [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	1,484	1,107
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	628	524
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Losses</u></a>	(4)	(11)
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	2,108	1,620

Fixed Income Investments [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	37,273	37,156
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	151	145
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Losses</u></a>	(3)	(4)
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	37,421	37,297

Fixed Income Investments [Member] | US Treasury and Government [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	25,147	24,201
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	31	41
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Losses</u></a>	(1)	(1)
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	25,177	24,241

Fixed Income Investments [Member] | US Government Agencies Debt Securities [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	3,776	5,367
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	14	21
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	3,790	5,388

Fixed Income Investments [Member] | Foreign Government Debt Securities [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	1,329	1,629
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	7	9
<a href="#"><u>Available-for-sale Securities, Fair Value Disclosure</u></a>	1,336	1,638

Fixed Income Investments [Member] | Corporate Debt Securities [Member]

**Schedule of Investments [Line Items]**

<a href="#"><u>Available-for-sale Securities, Amortized Cost Basis</u></a>	7,021	5,959
<a href="#"><u>Available-for-sale Securities, Gross Unrealized Gains</u></a>	99	74

Available-for-sale Securities, Gross Unrealized Losses

(2)

(3)

Available-for-sale Securities, Fair Value Disclosure

\$ 7,118

\$ 6,030

## Commitments And Contingencies

6 Months Ended  
Jan. 26, 2013

### [Commitments and Contingencies Disclosure](#)

#### [\[Abstract\]](#)

### [Commitments and Contingencies](#)

## 12. Commitments and Contingencies

### (a) Operating Leases

The Company leases office space in many U.S. locations. Outside the United States, larger leased sites include sites in Australia, China, France, Germany, India, Israel, Italy, Japan, Norway, and the United Kingdom. The Company also leases equipment and vehicles. Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of January 26, 2013 are as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 182
2014	281
2015	237
2016	120
2017	83
Thereafter	226
Total	<u>\$ 1,129</u>

### (b) Purchase Commitments with Contract Manufacturers and Suppliers

The Company purchases components from a variety of suppliers and uses several contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by the Company or establish the parameters defining the Company's requirements. A significant portion of the Company's reported purchase commitments arising from these agreements consists of firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule, and adjust the Company's requirements based on its business needs prior to firm orders being placed. As of January 26, 2013 and July 28, 2012, the Company had total purchase commitments for inventory of \$3,824 million and \$3,869 million, respectively.

The Company records a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of its future demand forecasts consistent with the valuation of the Company's excess and obsolete inventory. As of January 26, 2013 and July 28, 2012, the liability for these purchase commitments was \$169 million and \$193 million, respectively, and was included in other current liabilities.

### (c) Other Commitments

In connection with the Company's business combinations and asset purchases, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or the continued employment with the Company of certain employees of the acquired entities. The Company recognized such compensation expense of \$23 million and \$14 million during the three months ended January 26, 2013 and January 28, 2012, respectively, and \$35 million and \$28 million during the six months ended January 26, 2013 and January 28, 2012, respectively. As of January 26, 2013, the Company estimated that future compensation expense and contingent consideration of up to \$1.1 billion may be required to be recognized pursuant to the applicable business combination and asset purchase agreements, which included a maximum potential \$863 million in milestone payments

related to Insieme as more fully discussed in the subsection entitled "Insieme" within section (d) immediately below.

The Company also has certain funding commitments, primarily related to its investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were \$133 million and \$120 million as of January 26, 2013 and July 28, 2012, respectively.

**(d) Variable Interest Entities**

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

As of January 26, 2013, the Company's cumulative gross investment in VCE was approximately \$457 million, inclusive of accrued interest, and its ownership percentage was approximately 35%.

The Company accounts for its investment in VCE under the equity method, and its portion of VCE's net loss is recognized in other income (loss), net. The Company's consolidated share of VCE's losses, based upon its portion of the overall funding, was approximately 36.8% for each of the three and six months ended January 26, 2013 and January 28, 2012. As of January 26, 2013, the Company has recorded cumulative losses from VCE of \$325 million since inception, of which losses of \$44 million and \$55 million were recorded for the three months ended January 26, 2013 and January 28, 2012, respectively, and a loss of \$86 million was recorded for each of the six months ended January 26, 2013 and January 28, 2012. The Company's carrying value in VCE as of January 26, 2013 of \$132 million is recorded in other assets.

Over the next 12 months, as VCE scales its operations, the Company expects that it will make additional investments in VCE and may incur additional losses proportionate with the Company's share ownership.

From time to time, EMC and Cisco may enter into guarantee agreements on behalf of VCE to indemnify third parties, such as customers, for monetary damages. Such guarantees were not material as of January 26, 2013.

Insieme In the third quarter of fiscal 2012, the Company made an investment in Insieme, an early stage company focused on research and development in the data center market. As set forth in the agreement between the Company and Insieme, this investment includes \$100 million of funding and a license to certain of the Company's technology. In addition, pursuant to a November 2012 amendment to the agreement between the Company and Insieme, the Company agreed to invest an additional \$35 million in Insieme upon the satisfaction of certain conditions. As of January 26, 2013, the Company owned approximately 87% of Insieme as a result of these investments and has consolidated the results of Insieme in its Consolidated Financial Statements.

The net loss attributable to the noncontrolling interests was not presented separately in the Consolidated Statements of Operations due to the amount being immaterial. In connection with this investment, the Company and Insieme have entered into a put/call option agreement that provides the Company with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders can require the Company to purchase their shares upon the occurrence of certain events. If the Company acquires the remaining interests of Insieme, the noncontrolling interest holders are eligible to receive two milestone payments, which will be determined using agreed-upon formulas based on revenue for certain of Insieme's products. The Company will begin recognizing the amounts due under the milestone payments when it is determined that such payments are probable of being earned, which the Company expects may be in fiscal 2014. When such a determination is made, the milestone payments will then be recorded as compensation expense by the Company based on an estimate of the fair value of the amounts probable of being earned, pursuant to a vesting schedule. Subsequent changes to the fair value of the amounts probable of being earned and the continued vesting will result in adjustments to the recorded compensation expense. The maximum amount that could be recorded as compensation expense by the Company is approximately \$863 million. This maximum amount was increased

from the previous maximum of \$750 million due to a November 2012 amendment to the agreement, as the parties recognized that higher staffing levels may be necessary to perform additional product development. The milestone payments, if earned, are expected to be paid primarily during fiscal 2016 and fiscal 2017.

*Other Variable Interest Entities* In the ordinary course of business, the Company has investments in other privately held companies and provides financing to certain customers. These other privately held companies and customers may be considered to be variable interest entities. The Company evaluates on an ongoing basis its investments in these other privately held companies and its customer financings and has determined that as of January 26, 2013 there were no other variable interest entities required to be consolidated in the Company's Consolidated Financial Statements.

#### (e) Product Warranties and Guarantees

The following table summarizes the activity related to product warranty liability during the six months ended January 26, 2013 and January 28, 2012 (in millions):

	Six Months Ended	
	January 26, 2013	January 28, 2012
Balance at beginning of period	\$ 415	\$ 342
Provision for warranties issued	319	331
Payments	(310)	(266)
Balance at end of period	\$ 424	\$ 407

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

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

The Company also provides financing guarantees, which are generally for various third-party financing arrangements to channel partners and other end-user customers. See Note 7 to the Consolidated Financial Statements. The Company's other guarantee arrangements as of January 26, 2013 and July 28, 2012 that were subject to recognition and disclosure requirements were not material.

#### (f) Legal Proceedings

Brazilian authorities have investigated the Company's Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of the Company's products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against the Company's Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In addition to claims asserted by the Brazilian federal tax authorities in prior fiscal years, tax authorities from the Brazilian state of



Sao Paulo have asserted similar claims on the same legal basis in prior fiscal years. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against the Company's Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008, and the asserted claims by the tax authorities from the state of Sao Paulo, are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to approximately \$426 million for the alleged evasion of import and other taxes, approximately \$1.1 billion for interest, and approximately \$1.9 billion for various penalties, all determined using an exchange rate as of January 26, 2013. The Company has completed a thorough review of the matters and believes the asserted claims against the Company's Brazilian subsidiary are without merit, and the Company is defending the claims vigorously. While the Company believes there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, the Company is unable to determine the likelihood of an unfavorable outcome against its Brazilian subsidiary and is unable to reasonably estimate a range of loss, if any. The Company does not expect a final judicial determination for several years.

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

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

The Company is subject to patent claims asserted by VirnetX, Inc. on August 11, 2010 in the Federal District Court for the Eastern District of Texas. VirnetX alleges that various Cisco products that implement a method for secure communication using virtual private networks infringe certain patents. VirnetX seeks monetary damages. The trial on these claims is scheduled to begin in March 2013. The Company believes that it has strong arguments that its products do not use the technology described in the patents and that the patents are invalid. If the jury were to find that Cisco's products infringe and find that the patents are not invalid, the Company believes that damages, as appropriately measured, would not be material given the limited contribution played by the alleged patented technology. However, due to the uncertainty surrounding the litigation process, the Company is unable to reasonably estimate the ultimate outcome of this litigation at this time.

The Company and a service provider customer are subject to patent claims asserted by TiVo, Inc. on June 4, 2012 in the Federal District Court for the Eastern District of Texas. TiVo alleges that the Company's digital video recorders deployed by the service provider customer infringe certain of its patents. TiVo seeks monetary damages and injunctive relief. The trial on these claims is scheduled to begin in March 2014. The Company intends to show at trial that its products do not use the technology described in the patents.

TiVo previously filed a similar patent lawsuit against the same service provider customer, accusing digital video recorders manufactured by one of the Company's competitors. The outcome of that case, which is scheduled for trial in May 2013, could have an impact on the timing and outcome of the Company's case. Due to the uncertainty surrounding the litigation process, which involves numerous defendants, the Company is unable to reasonably estimate the ultimate outcome of this litigation at this time.

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

## Fair Value (Tables)

**6 Months Ended  
Jan. 26, 2013**

### [Fair Value Disclosures](#)

#### [\[Abstract\]](#)

#### [Schedule of Fair Value, Assets and Liabilities Measured on Recurring Basis](#)

Assets and liabilities measured at fair value on a recurring basis as of January 26, 2013 and July 28, 2012 were as follows (in millions):

	JANUARY 26, 2013				JULY 28, 2012			
	FAIR VALUE MEASUREMENTS				FAIR VALUE MEASUREMENTS			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
<b>Assets</b>								
Cash equivalents:								
Money market funds	\$4,513	\$ —	\$ —	\$ 4,513	\$2,506	\$ —	\$ —	\$ 2,506
Available-for-sale investments:								
U.S. government securities	—	25,177	—	25,177	—	24,241	—	24,241
U.S. government agency securities	—	3,790	—	3,790	—	5,388	—	5,388
Non-U.S. government and agency securities	—	1,336	—	1,336	—	1,638	—	1,638
Corporate debt securities	—	7,118	—	7,118	—	6,030	—	6,030
Publicly traded equity securities	2,108	—	—	2,108	1,620	—	—	1,620
Derivative assets	—	244	—	244	—	263	1	264
<b>Total</b>	<b>\$6,621</b>	<b>\$37,665</b>	<b>\$ —</b>	<b>\$44,286</b>	<b>\$4,126</b>	<b>\$37,560</b>	<b>\$ 1</b>	<b>\$41,687</b>
<b>Liabilities:</b>								
Derivative liabilities	\$ —	\$ 57	\$ —	\$ 57	\$ —	\$ 42	\$ —	\$ 42
<b>Total</b>	<b>\$ —</b>	<b>\$ 57</b>	<b>\$ —</b>	<b>\$ 57</b>	<b>\$ —</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ 42</b>

#### [Fair Value, Assets Measured on Recurring Basis, Unobservable Input Reconciliation](#)

The following table presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended January 28, 2012 (in millions):

	Asset-Backed Securities	Derivative Assets	Total

Balance at July 30, 2011	\$	121	\$	2	\$	123
Total gains and losses (realized and unrealized):						
Included in other income (loss), net		3		—		3
Included in other comprehensive income (loss)		(3)		—		(3)
Sales and maturities		(14)		(1)		(15)
Transfer into Level 2		(107)		—		(107)
Balance at January 28, 2012	\$	—	\$	1	\$	1

[Fair Value, Assets and Liabilities Measured on Nonrecurring Basis](#)

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

	January 26, 2013		
	Net Carrying Value as of End of Period	Total Losses for the Three Months Ended	Total Losses for the Six Months Ended
Investments in privately held companies	\$ 60	\$ (8)	\$ (18)

	January 28, 2012		
	Net Carrying Value as of End of Period	Total Gains (Losses) for the Three Months Ended	Total Gains (Losses) for the Six Months Ended
Investments in privately held companies	\$ 6	\$ (1)	\$ (2)
Property held for sale	\$ 39	(27)	(116)
Gains on assets no longer held at period end		14	14
Total losses for nonrecurring measurements		\$ (14)	\$ (104)

<b>Income Taxes (Income Before Provision For Income Taxes) (Detail) (USD \$) In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>
<b><u>Income Tax Disclosure [Abstract]</u></b>				
<u>Income (Loss) from Continuing Operations before Income Taxes, Domestic</u>	\$ 2,780	\$ 2,749	\$ 5,411	\$ 4,994
<u>Income Tax Expense (Benefit)</u>	\$ (363)	\$ 567	\$ 176	\$ 1,035
<u>Effective Income Tax Rate, Continuing Operations</u>	(13.10%)	20.60%	3.30%	20.70%

## Employee Benefit Plans

6 Months Ended

Jan. 26, 2013

[Employee Service Share-based Compensation, Aggregate Disclosures \[Abstract\]](#)  
[Employee Benefit Plans](#)

### 14. Employee Benefit Plans

#### (a) Employee Stock Incentive Plans

**Stock Incentive Plan Program Description** As of January 26, 2013, the Company had five stock incentive plans: the 2005 Stock Incentive Plan (the "2005 Plan"); the 1996 Stock Incentive Plan (the "1996 Plan"); the 1997 Supplemental Stock Incentive Plan (the "Supplemental Plan"); the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan (the "SA Acquisition Plan"); and the Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan (the "WebEx Acquisition Plan"). In addition, the Company has, in connection with the acquisitions of various companies, assumed the share-based awards granted under stock incentive plans of the acquired companies or issued share-based awards in replacement thereof. Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors. Since the inception of the stock incentive plans, the Company has granted share-based awards to a significant percentage of its employees, and the majority has been granted to employees below the vice president level. The Company's primary stock incentive plans are summarized as follows:

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

Pursuant to an amendment approved by the Company's shareholders on November 12, 2009, the number of shares available for issuance under the 2005 Plan was reduced by 1.5 shares for each share awarded as a stock grant or a stock unit, and any shares underlying awards outstanding under the 1996 Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that expire unexercised at the end of their maximum terms become available for reissuance under the 2005 Plan. The 2005 Plan permits the granting of stock options, restricted stock, restricted stock units ("RSUs"), the vesting of which may be performance-based or market-based along with the requisite service requirement, and stock appreciation rights to employees (including employee directors and officers), consultants of the Company and its subsidiaries and affiliates, and non-employee directors of the Company. Stock options and stock appreciation rights granted under the 2005 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and prior to November 12, 2009 have an expiration date no later than nine years from the grant date. The expiration date for stock options and stock appreciation rights granted subsequent to the amendment approved on November 12, 2009 shall be no later than ten years from the grant date.

The stock options will generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Time-based stock grants and time-based RSUs will generally vest with respect to 20% or 25% of the shares or share units covered by the grant on each of the first through fifth or fourth anniversaries of the date of the grant, respectively. Performance-based and market-based RSUs typically vest at the end of the three year requisite service period or earlier if the award recipient meets certain retirement eligibility conditions. The Compensation and Management Development Committee of the Board of Directors has the discretion to use different vesting schedules. Stock appreciation rights may be awarded in combination with stock options or stock grants, and such awards shall provide that the stock appreciation rights will not be exercisable unless the related stock options or stock grants are forfeited. Stock grants may be awarded in combination with non-statutory stock options, and such

awards may provide that the stock grants will be forfeited in the event that the related non-statutory stock options are exercised.

*1996 Plan* The 1996 Plan expired on December 31, 2006, and the Company can no longer make equity awards under the 1996 Plan. The maximum number of shares issuable over the term of the 1996 Plan was 2.5 billion shares. Stock options granted under the 1996 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and expire no later than nine years from the grant date. The stock options generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 or 36 months, respectively. Certain other grants have utilized a 60-month ratable vesting schedule. In addition, the Board of Directors, or other committees administering the 1996 Plan, have the discretion to use a different vesting schedule and have done so from time to time.

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

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

#### **(b) Employee Stock Purchase Plan**

The Company has an Employee Stock Purchase Plan, which includes its subplan, the International Employee Stock Purchase Plan (together, the "Purchase Plan"), under which 471.4 million shares of the Company's common stock have been reserved for issuance as of January 26, 2013. Eligible employees are offered shares through a 24-month offering period, which consists of four consecutive 6-month purchase periods. Employees may purchase a limited number of shares of the Company's stock at a discount of up to 15% of the lesser of the market value at the beginning of the offering period or the end of each 6-month purchase period. The Purchase Plan is scheduled to terminate on January 3, 2020. The Company issued 18 million shares under the Purchase Plan during each of the six months ended January 26, 2013 and January 28, 2012. As of January 26, 2013, 69 million shares were available for issuance under the Purchase Plan.

#### **(c) Summary of Share-Based Compensation Expense**

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Cost of sales - product	\$ 11	\$ 14	\$ 21	\$ 27
Cost of sales - service	36	40	71	77
Share-based compensation expense in cost of sales	47	54	92	104
Research and development	72	99	156	200
Sales and marketing	135	149	265	291
General and administrative	48	54	98	102
Restructuring and other charges	—	(2)	(3)	(2)

Share-based compensation expense in operating expenses	255	300	516	591
Total share-based compensation expense	\$ 302	\$ 354	\$ 608	\$ 695

As of January 26, 2013, the total compensation cost related to unvested share-based awards not yet recognized was \$2.3 billion, which is expected to be recognized over approximately 2.6 years on a weighted-average basis. The income tax benefit for share-based compensation expense was \$80 million and \$159 million for the three and six months ended January 26, 2013, respectively, and \$93 million and \$183 million for the three and six months ended January 28, 2012, respectively.

The Company uses third-party analyses to assist in developing the assumptions used in, as well as calibrating, its lattice-binomial and Black-Scholes models. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

The Company used the implied volatility for traded options (with contract terms corresponding to the expected life of the employee stock purchase rights) on the Company's stock as the expected volatility assumption required in the Black-Scholes model. The implied volatility is more representative of future stock price trends than historical volatility. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company's employee stock purchase rights. The dividend yield assumption is based on the history and expectation of dividend payouts at the grant date.

The use of the lattice-binomial model requires extensive actual employee exercise behavior data for the relative probability estimation purpose, and a number of complex assumptions as presented in the preceding table. The estimated kurtosis and skewness are technical measures of the distribution of stock price returns, which affect expected employee stock option exercise behaviors, and are based on the Company's stock price return history as well as consideration of various academic analyses. The expected life of employee stock options is a derived output of the lattice-binomial model, which represents the weighted-average period the stock options are expected to remain outstanding.

#### (d) Share-Based Awards Available for Grant

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

	Share-Based Awards Available for Grant
BALANCE AT JULY 30, 2011	255
Restricted stock, stock units, and other share-based awards granted	(95)
Share-based awards canceled/forfeited/expired	64
Other	(6)
BALANCE AT JULY 28, 2012	218
Restricted stock, stock units, and other share-based awards granted	(78)
Share-based awards canceled/forfeited/expired	89
Other	(3)
BALANCE AT JANUARY 26, 2013	226

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

#### (e) Restricted Stock and Stock Unit Awards



A summary of the restricted stock and stock unit activity, which includes time-based and performance-based or market-based restricted stock units, is as follows (in millions, except per-share amounts):

	Restricted Stock/ Stock Units	Weighted- Average Grant Date Fair Value per Share	Aggregated Fair Market Value
UNVESTED BALANCE AT JULY 30, 2011	116	\$ 21.50	
Granted and assumed	65	17.45	
Vested	(35)	21.94	\$ 580
Canceled/forfeited	(18)	20.38	
UNVESTED BALANCE AT JULY 28, 2012	128	19.46	
Granted and assumed	55	17.35	
Vested	(33)	21.03	\$ 624
Canceled/forfeited	(5)	18.33	
UNVESTED BALANCE AT JANUARY 26, 2013	145	\$ 18.35	

The valuation of RSUs is summarized as follows:

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Number of shares granted (in millions)	37	33	48	44
Weighted- average grant date fair value per share	\$ 17.07	\$ 17.88	\$ 17.20	\$ 17.34
Expected dividend yield	3.1%	1.3%	3.0%	1.3%

In addition to the RSUs in the preceding table, the Company granted approximately 4 million performance-based stock unit awards ("PRSUs") during the first quarter of fiscal 2013. The Company granted approximately 1 million and 2 million such awards for the three and six months ended January 28, 2012, respectively. These PRSUs are contingent on the achievement of the Company's financial performance metrics or its comparative market-based returns. On the date of grant, the Company estimated the fair value of restricted stock units with market-based conditions using a Monte Carlo simulation model. The Company used the assumptions in the preceding table to determine the grant date fair value of restricted stock units with performance metrics conditions.

#### (f) Stock Option Awards

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

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 30, 2011	621	\$ 21.79
Assumed from acquisitions	1	2.08
Exercised	(66)	13.51
Canceled/forfeited/expired	(36)	23.40
BALANCE AT JULY 28, 2012	520	22.68
Assumed from acquisitions	7	0.92
Exercised	(26)	15.25
Canceled/forfeited/expired	(82)	21.32
BALANCE AT JANUARY 26, 2013	419	\$ 23.08

The following table summarizes significant ranges of outstanding and exercisable stock options as of January 26, 2013 (in millions, except years and share prices):

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
\$ 0.01 – 15.00	11	5.80	\$ 4.83	\$ 181	7	\$ 7.20	\$ 91
15.01 – 18.00	69	1.66	17.79	232	69	17.79	231
18.01 – 20.00	86	0.86	19.17	170	86	19.17	170
20.01 – 25.00	129	2.48	22.77	7	128	22.77	8
25.01 – 35.00	124	3.62	30.69	—	123	30.71	—
Total	419	2.44	\$ 23.08	\$ 590	413	\$ 23.31	\$ 500

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$21.15 as of January 25, 2013, which would have been received by the option holders had those option holders exercised their stock options as of that date. The total number of in-the-money stock options exercisable as of January 26, 2013 was 174 million. As of July 28, 2012, 512 million outstanding stock options were exercisable and the weighted-average exercise price was \$22.65.

**Investments (Available-For-Sale Investments With Gross Unrealized Losses) (Detail)  
(USD \$)  
In Millions, unless otherwise specified**

**Jan. 26, 2013      Jul. 28, 2012**

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than Twelve Months, Fair Value</u>	\$ 3,667	\$ 6,127
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than 12 Months, Aggregate Losses</u>	(7)	(12)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Twelve Months or Longer, Fair Value</u>	0	34
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, 12 Months or Longer, Aggregate Losses</u>	0	(3)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Fair Value</u>	3,667	6,161
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Aggregate Losses</u>	(7)	(15)
Publicly Traded Equity Securities [Member]		

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than Twelve Months, Fair Value</u>	36	167
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than 12 Months, Aggregate Losses</u>	(4)	(8)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Twelve Months or Longer, Fair Value</u>	0	20
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, 12 Months or Longer, Aggregate Losses</u>	0	(3)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Fair Value</u>	36	187
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Aggregate Losses</u>	(4)	(11)
Total Fixed Income Securities [Member]		

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than Twelve Months, Fair Value</u>	3,631	5,960
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than 12 Months, Aggregate Losses</u>	(3)	(4)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Twelve Months or Longer, Fair Value</u>	0	14
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, 12 Months or Longer, Aggregate Losses</u>	0	0
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Fair Value</u>	3,631	5,974
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Aggregate Losses</u>	(3)	(4)
Total Fixed Income Securities [Member]   US Treasury and Government [Member]		

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than Twelve Months, Fair Value</u>	2,617	5,357
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<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than 12 Months, Aggregate Losses</u>	(1)	(1)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Twelve Months or Longer, Fair Value</u>	0	0
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, 12 Months or Longer, Aggregate Losses</u>	0	0
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Fair Value</u>	2,617	5,357
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Aggregate Losses</u>	(1)	(1)
Total Fixed Income Securities [Member]   Corporate Debt Securities [Member]		
<b><u>Schedule of Investments [Line Items]</u></b>		
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than Twelve Months, Fair Value</u>	1,014	603
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Less than 12 Months, Aggregate Losses</u>	(2)	(3)
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Twelve Months or Longer, Fair Value</u>	0	14
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, 12 Months or Longer, Aggregate Losses</u>	0	0
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Fair Value</u>	1,014	617
<u>Available-for-sale Securities, Continuous Unrealized Loss Position, Aggregate Losses</u>	\$ (2)	\$ (3)

**Consolidated Statements Of  
Cash Flows (USD \$)  
In Millions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26,  
2013      Jan. 28,  
2012**

**Cash flows from operating activities:**

Net income \$ 5,235 \$ 3,959

**Adjustments to reconcile net income to net cash provided by operating activities:**

Depreciation, amortization, and other 1,223 1,185

Share-based compensation expense 608 695

Provision for receivables 12 43

Deferred income taxes 148 29

Excess tax benefits from share-based compensation (32) (32)

Net losses (gains) on investments 14 (11)

**Change in operating assets and liabilities, net of effects of acquisitions and divestitures:**

Accounts receivable 100 761

Inventories 194 (194)

Financing receivables (403) (551)

Other assets (63) (505)

Accounts payable (17) (78)

Income taxes, net (1,444) 146

Accrued compensation (161) (508)

Deferred revenue 407 304

Other liabilities (7) 191

Net cash provided by operating activities 5,814 5,434

**Cash flows from investing activities:**

Purchases of investments 14,234 17,810

Proceeds from sales of investments 4,991 12,291

Proceeds from maturities of investments 8,652 4,039

Acquisition of property and equipment (552) (549)

Acquisition of businesses, net of cash and cash equivalents acquired (6,035) (109)

Purchases of investments in privately held companies (116) (231)

Return of Investments In Privately Held Companies 68 124

Other 30 160

Net cash used in investing activities (7,196) (2,085)

**Cash flows from financing activities:**

Issuances of common stock 652 653

Repurchases of stock- repurchase program (645) (2,210)

Stock repurchased for tax withholdings on vesting of restricted stock units, value (212) (145)

Short-term borrowings, maturities less than 90 days, net 4 17

Excess tax benefits from share-based compensation 32 32

Dividends paid (1,487) (644)

Other 86 (153)

Net cash used in financing activities (1,570) (2,450)

<u>Net decrease in cash and cash equivalents</u>	(2,952)	899
<u>Cash and cash equivalents, beginning of period</u>	9,799	7,662
<u>Cash and cash equivalents, end of period</u>	6,847	8,561
<b><u>Cash paid for:</u></b>		
<u>Interest</u>	341	340
<u>Income taxes</u>	\$ 1,472	\$ 860

**Consolidated Balance Sheets  
(Parenthetical) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

**Jan. 26,  
2013      Jul. 28,  
2012**

**Statement of Financial Position [Abstract]**

<u>Accounts receivable, allowance for doubtful accounts of \$218 at January 26, 2013 and \$207 at July 28, 2012</u>	\$ 218	\$ 207
<u>Preferred Stock, No Par Value</u>	\$ 0	\$ 0
<u>Preferred stock, shares authorized</u>	5	5
<u>Preferred stock, issued</u>	0	0
<u>Preferred stock, outstanding</u>	0	0
<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	20,000	20,000
<u>Common stock, shares issued</u>	5,323	5,298
<u>Common stock, shares outstanding</u>	5,323	5,298

## Financing Receivables And Guarantees

6 Months Ended

Jan. 26, 2013

[Financing Receivables And Guarantees \[Abstract\]](#)

[Financing Receivables And Guarantees](#)

### 7. Financing Receivables and Guarantees

#### (a) Financing Receivables

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

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

	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total Financing Receivables
<u>January 26, 2013</u>				
Gross	\$ 3,717	\$ 1,785	\$ 2,863	\$ 8,365
Unearned income	(273)	—	—	(273)
Allowance for credit loss	(247)	(101)	(13)	(361)
Total, net	\$ 3,197	\$ 1,684	\$ 2,850	\$ 7,731
Reported as:				
Current	\$ 1,349	\$ 960	\$ 1,585	\$ 3,894
Noncurrent	1,848	724	1,265	3,837
Total, net	\$ 3,197	\$ 1,684	\$ 2,850	\$ 7,731
<u>July 28, 2012</u>				
Gross	\$ 3,429	\$ 1,796	\$ 2,651	\$ 7,876
Unearned income	(250)	—	—	(250)
Allowance for credit loss	(247)	(122)	(11)	(380)
Total, net	\$ 2,932	\$ 1,674	\$ 2,640	\$ 7,246
Reported as:				
Current	\$ 1,200	\$ 968	\$ 1,493	\$ 3,661
Noncurrent	1,732	706	1,147	3,585
Total, net	\$ 2,932	\$ 1,674	\$ 2,640	\$ 7,246

As of January 26, 2013 and July 28, 2012, the deferred service revenue related to the financed service contracts and other was \$1,943 million and \$1,838 million, respectively.

Contractual maturities of the gross lease receivables at January 26, 2013 are summarized as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 878
2014	1,345
2015	863
2016	437
2017	194
Total	\$ 3,717



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

**(b) Credit Quality of Financing Receivables**

Financing receivables categorized by the Company's internal credit risk rating as of January 26, 2013 and July 28, 2012 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING				Residual Value	Gross Receivables, Net of Unearned Income
	1 to 4	5 to 6	7 and Higher	Total		
January 26, 2013						
Lease receivables	\$ 1,607	\$ 1,505	\$ 58	\$ 3,170	\$ 274	\$ 3,444
Loan receivables	882	857	46	1,785	—	1,785
Financed service contracts and other	1,579	1,179	105	2,863	—	2,863
Total	\$ 4,068	\$ 3,541	\$ 209	\$ 7,818	\$ 274	\$ 8,092

	INTERNAL CREDIT RISK RATING				Residual Value	Gross Receivables, Net of Unearned Income
	1 to 4	5 to 6	7 and Higher	Total		
July 28, 2012						
Lease receivables	\$ 1,532	\$ 1,342	\$ 31	\$ 2,905	\$ 274	\$ 3,179
Loan receivables	831	921	44	1,796	—	1,796
Financed service contracts and other	1,552	1,030	69	2,651	—	2,651
Total	\$ 3,915	\$ 3,293	\$ 144	\$ 7,352	\$ 274	\$ 7,626

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers: lease receivables, loan receivables, and financed service contracts and other.

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

In circumstances when collectibility is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company's revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of January 26, 2013 and July 28, 2012 were \$2,429 million and \$2,387 million, respectively, and they were associated with financing receivables (net of unearned income) of \$8,092 million and \$7,626 million as of their respective period ends. The losses that the Company has incurred historically, including in the periods presented with respect to its financing receivables, have been immaterial and consistent with the performance of an investment-grade portfolio. The Company did not modify any financing receivables during the periods presented.

The following tables present the aging analysis of financing receivables as of January 26, 2013 and July 28, 2012 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)				Current	Gross Receivables, Net of Unearned Income	Non-Accrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+	Total Past Due				
January 26, 2013								
Lease receivables	\$ 182	\$ 34	\$ 230	\$ 446	\$ 2,998	\$ 3,444	\$ 49	\$ 33
Loan receivables	12	3	11	26	1,759	1,785	32	32
Financed service contracts and other	305	37	251	593	2,270	2,863	21	13
Total	\$ 499	\$ 74	\$ 492	\$ 1,065	\$ 7,027	\$ 8,092	\$ 102	\$ 78

DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)

July 28, 2012	31-60	61-90	91+	Total Past Due	Current	Gross	Non-	Impaired
						Receivables, Net of Unearned Income	Accrual Financing Receivables	
Lease receivables	\$ 151	\$ 69	\$ 173	\$ 393	\$ 2,786	\$ 3,179	\$ 23	\$ 14
Loan receivables	10	8	11	29	1,767	1,796	4	4
Financed service contracts and other	89	68	392	549	2,102	2,651	18	10
Total	\$ 250	\$ 145	\$ 576	\$ 971	\$ 6,655	\$ 7,626	\$ 45	\$ 28

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables is presented by contract, and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The balances of either unbilled or current financing receivables included in the category of 91 days plus past due for lease receivables, loan receivables, and financed service contracts and other were, respectively, \$179 million, \$6 million, and \$199 million as of January 26, 2013; and were, respectively, \$139 million, \$3 million, and \$313 million as of July 28, 2012.

As of January 26, 2013, the Company had financing receivables of \$82 million, net of unbilled or current receivables from the same contract, that were in the category for 91 days plus past due but remained on accrual status. Such balance was \$109 million as of July 28, 2012. A financing receivable may be placed on nonaccrual status earlier if, in management's opinion, a timely collection of the full principal and interest becomes uncertain.

### (c) Allowance for Credit Loss Rollforward

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

	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 28, 2012	\$ 247	\$ 122	\$ 11	\$ 380
Provisions	(2)	(10)	1	(11)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	3	2	—	5
Allowance for credit loss as of October 27, 2012	248	114	12	374
Provisions	(1)	(14)	2	(13)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	—	1	(1)	—
Allowance for credit loss as of January 26, 2013	\$ 247	\$ 101	\$ 13	\$ 361
Gross receivables as of January 26, 2013, net of unearned income	\$ 3,444	\$ 1,785	\$ 2,863	\$ 8,092
	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 30, 2011	\$ 237	\$ 103	\$ 27	\$ 367
Provisions	2	5	2	9
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(6)	(5)	—	(11)
Allowance for credit loss as of October 29, 2011	233	103	29	365
Provisions	18	4	(18)	4
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(1)	3	(2)	—
Allowance for credit loss as of January 28, 2012	\$ 250	\$ 110	\$ 9	\$ 369

Gross receivables as of January 28, 2012, net of unearned income	\$	3,049	\$	1,673	\$	2,666	\$	7,388
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The Company assesses the allowance for credit loss related to financing receivables on either an individual or a collective basis. The Company considers various factors in evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis. These factors include the Company's historical experience, credit quality and age of the receivable balances, and economic conditions that may affect a customer's ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including any accrued interest, will be assessed and fully reserved at the customer level.

Typically, the Company also considers receivables with a risk rating of 8 or higher to be impaired and will include them in the individual assessment for allowance. Financing receivables that were individually evaluated for impairment during the periods presented were not material and therefore are not presented separately in the preceding tables.

The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. When evaluating the financing receivables on a collective basis, the Company uses expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk, and correlation.

#### (d) Financing Guarantees

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

Channel Partner Financing Guarantees The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The volume of channel partner financing was \$5.8 billion and \$5.4 billion for the three months ended January 26, 2013 and January 28, 2012, respectively. The volume of channel partner financing was \$11.4 billion and \$10.7 billion for the six months ended January 26, 2013 and January 28, 2012, respectively. The balance of the channel partner financing subject to guarantees was \$1.4 billion and \$1.2 billion as of January 26, 2013 and July 28, 2012, respectively.

End-User Financing Guarantees The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans, which typically have terms of up to three years. The volume of financing provided by third parties for leases and loans as to which the Company had provided guarantees was \$55 million and \$60 million for the three months ended January 26, 2013 and January 28, 2012, respectively, and was \$99 million and \$95 million for the six months ended January 26, 2013 and January 28, 2012, respectively.

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at January 26, 2013 and July 28, 2012, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

	January 26, 2013	July 28, 2012
Maximum potential future payments relating to financing guarantees:		
Channel partner	\$ 491	\$ 277
End user	254	232
Total	\$ 745	\$ 509
Deferred revenue associated with financing guarantees:		
Channel partner	\$ (267)	\$ (193)
End user	(217)	(200)
Total	\$ (484)	\$ (393)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	\$ 261	\$ 116

<b>Net Income Per Share (Calculation Of Basic And Diluted Net Income Per Share) (Detail) (USD \$) In Millions, except Per Share data, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>

**Earnings Per Share [Abstract]**

<u>Net income</u>	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
<u>Weighted Average Number of Shares Outstanding, Basic</u>	5,318	5,368	5,310	5,381
<u>Weighted Average Number Diluted Shares Outstanding Adjustment</u>	39	33	34	23
<u>Weighted-average shares-diluted</u>	5,357	5,401	5,344	5,404
<u>Net income per share-basic</u>	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
<u>Earnings Per Share, Diluted</u>	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
<u>Antidilutive employee share-based awards, excluded</u>	324	532	519	692

**Employee Benefit Plans  
(Summary Of Restricted  
Stock And Stock Unit  
Activity) (Detail) (Restricted  
Stock And Stock Unit  
Awards [Member], USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

<b>6 Months Ended</b>	<b>12 Months Ended</b>
<b>Jan. 26, 2013</b>	<b>Jul. 28, 2012</b>

Restricted Stock And Stock Unit Awards [Member]

**Share-based Compensation Arrangement by Share-based Payment Award [Line Items]**

<u>Stock Issued During Period, Shares, Restricted Stock Award, Gross</u>	55	65
<b><u>Share-based Compensation Arrangement by Share-based Payment Award, Equity Instruments Other than Options, Nonvested [Roll Forward]</u></b>		
<u>Beginning balance, restricted stock/stock units</u>	128	116
<u>Vested, restricted stock/stock units</u>	(33)	(35)
<u>Canceled/forfeited, restricted stock/stock units</u>	(5)	(18)
<u>Ending balance, restricted stock/stock units</u>	145	128
<u>Beginning balance, weighted-average grant date fair value per share</u>	\$ 19.46	\$ 21.50
<u>Granted and assumed, weighted-average grant date fair value per share</u>	\$ 17.35	\$ 17.45
<u>Vested, weighted-average grant date fair value per share</u>	\$ 21.03	\$ 21.94
<u>Canceled/forfeited, weighted-average grant date fair value per share</u>	\$ 18.33	\$ 20.38
<u>Ending balance, weighted-average grant date fair value per share</u>	\$ 18.35	\$ 19.46
<u>Vested, aggregated fair market value</u>	\$ 624	\$ 580

Employee Benefit Plans (Summary Of Share-Based Compensation Expense) (Detail) (USD \$) In Millions, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	\$ 302	\$ 354	\$ 608	\$ 695
Cost Of Sales Product [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	11	14	21	27
Cost Of Sales-Service [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	36	40	71	77
Share-Based Compensation Expense In Cost Of Sales [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	47	54	92	104
Research And Development [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	72	99	156	200
Sales And Marketing [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	135	149	265	291
General And Administrative [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	48	54	98	102
Restructuring And Other Charges [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	0	(2)	(3)	(2)
Share-Based Compensation Expense In Operating Expenses [Member]				
<a href="#">Option Indexed to Issuer's Equity [Line Items]</a>				
<a href="#">Allocated Share-based Compensation Expense</a>	\$ 255	\$ 300	\$ 516	\$ 591

**Document And Entity  
Information**

**6 Months Ended  
Jan. 26, 2013**

**Feb. 14, 2013**

**Document Information [Line Items]**

<u>Document Type</u>	10-Q	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Jan. 26, 2013	
<u>Document Fiscal Period Focus</u>	Q2	
<u>Document Fiscal Year Focus</u>	2013	
<u>Trading Symbol</u>	CSCO	
<u>Entity Registrant Name</u>	CISCO SYSTEMS, INC.	
<u>Entity Central Index Key</u>	0000858877	
<u>Entity Current Reporting Status</u>	Yes	
<u>Current Fiscal Year End Date</u>	--07-27	
<u>Entity Filer Category</u>	Large Accelerated Filer	
<u>Entity Common Stock, Shares Outstanding</u>		5,331,973,900

## Investments

**6 Months Ended  
Jan. 26, 2013**

[Investments \[Abstract\]](#)

[Investments](#)

### 8. Investments

#### (a) Summary of Available-for-Sale Investments

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

<u>January 26, 2013</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed income securities:</b>				
U.S. government securities	\$ 25,147	\$ 31	\$ (1)	\$ 25,177
U.S. government agency securities	3,776	14	—	3,790
Non-U.S. government and agency securities	1,329	7	—	1,336
Corporate debt securities	7,021	99	(2)	7,118
Total fixed income securities	37,273	151	(3)	37,421
Publicly traded equity securities	1,484	628	(4)	2,108
Total	\$ 38,757	\$ 779	\$ (7)	\$ 39,529

<u>July 28, 2012</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed income securities:</b>				
U.S. government securities	\$ 24,201	\$ 41	\$ (1)	\$ 24,241
U.S. government agency securities	5,367	21	—	5,388
Non-U.S. government and agency securities	1,629	9	—	1,638
Corporate debt securities	5,959	74	(3)	6,030
Total fixed income securities	37,156	145	(4)	37,297
Publicly traded equity securities	1,107	524	(11)	1,620
Total	\$ 38,263	\$ 669	\$ (15)	\$ 38,917

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

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

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Gross realized gains	\$ 191	\$ 188	\$ 263	\$ 424
Gross realized losses	(178)	(151)	(223)	(378)
Total	\$ 13	\$ 37	\$ 40	\$ 46

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012



Net gains (losses) on investments in publicly traded equity securities	\$ 4	\$ 31	\$ 14	\$ 15
Net gains on investments in fixed income securities	9	6	26	31
<b>Total</b>	<b>\$ 13</b>	<b>\$ 37</b>	<b>\$ 40</b>	<b>\$ 46</b>

There were no impairment charges on available-for-sale investments for the periods presented.

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at January 26, 2013 and July 28, 2012 (in millions):

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>January 26, 2013</u>						
Fixed income securities:						
U.S. government securities	\$ 2,617	\$ (1)	\$ —	\$ —	\$ 2,617	\$ (1)
Corporate debt securities	1,014	(2)	—	—	1,014	(2)
Total fixed income securities	3,631	(3)	—	—	3,631	(3)
Publicly traded equity securities	36	(4)	—	—	36	(4)
Total	\$ 3,667	\$ (7)	\$ —	\$ —	\$ 3,667	\$ (7)

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>July 28, 2012</u>						
Fixed income securities:						
U.S. government securities	\$ 5,357	\$ (1)	\$ —	\$ —	\$ 5,357	\$ (1)
Corporate debt securities	603	(3)	14	—	617	(3)
Total fixed income securities	5,960	(4)	14	—	5,974	(4)
Publicly traded equity securities	167	(8)	20	(3)	187	(11)
Total	\$ 6,127	\$ (12)	\$ 34	\$ (3)	\$ 6,161	\$ (15)

As of January 26, 2013, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of January 26, 2013, the Company anticipates that it will recover the entire amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three and six months ended January 26, 2013.

The Company has evaluated its publicly traded equity securities as of January 26, 2013 and has determined that there was no indication of other-than-temporary impairments in the respective categories of unrealized losses. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

**(c) Maturities of Fixed Income Securities**

The following table summarizes the maturities of the Company's fixed income securities at January 26, 2013 (in millions):

	Amortized Cost	Fair Value
Less than 1 year	\$ 16,215	\$ 16,234
Due in 1 to 2 years	10,710	10,752
Due in 2 to 5 years	10,230	10,310
Due after 5 years	118	125
Total	<u>\$ 37,273</u>	<u>\$ 37,421</u>

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

**(d) Securities Lending**

The Company periodically engages in securities lending activities with certain of its available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the six months ended January 26, 2013 and January 28, 2012 was \$0.8 billion and \$0.4 billion, respectively. The Company requires collateral equal to at least 102% of the fair market value of the loaned security in the form of cash or in the form of liquid, high-quality assets. The Company engages in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify the Company against collateral losses. The Company did not experience any losses in connection with the secured lending of securities during the periods presented. As of January 26, 2013 and July 28, 2012, the Company had no outstanding securities lending transactions.

<b>Derivative Instruments (Effect Of Derivative Instruments Designated As Cash Flow Hedges On Other Comprehensive And Consolidated Statements Of Operations Summary) (Details) (USD \$) In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>	<b>6 Months Ended</b>		
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>
Cash Flow Hedging [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in OCI on derivatives (effective portion)</u></a>	\$ 3	\$ (44)	\$ 69	\$ (94)
<a href="#"><u>Gains (losses) reclassified from AOCI into income (effective portion)</u></a>	8	(26)	3	(26)
Cash Flow Hedging [Member]   Foreign Currency Derivatives-Cash Flow Hedges [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in OCI on derivatives (effective portion)</u></a>	3	(44)	69	(94)
Cash Flow Hedging [Member]   Operating Expenses [Member]   Foreign Currency Derivatives-Cash Flow Hedges [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) reclassified from AOCI into income (effective portion)</u></a>	6	(22)	2	(22)
Cash Flow Hedging [Member]   Cost Of Sales-Service [Member]   Foreign Currency Derivatives-Cash Flow Hedges [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) reclassified from AOCI into income (effective portion)</u></a>	2	(4)	1	(4)
Net Investment Hedging [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in OCI on derivatives (effective portion)</u></a>	0	(2)	(24)	(6)
Net Investment Hedging [Member]   Other income (loss), net [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) reclassified from AOCI into income (effective portion)</u></a>	\$ 0	\$ 0	\$ 0	\$ 0

Employee Benefit Plans - Additional Information (Detail) (USD \$)	3 Months Ended		6 Months Ended		3 Months Ended		6 Months Ended		6 Months Ended				6 Months Ended	12 Months Ended				
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 25, 2013	Jul. 28, 2012	Jul. 27, 2012	Jan. 26, 2013	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2013	Jul. 29, 2013	Jul. 29, 2013
<a href="#">Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</a>																		
<a href="#">Shares reserved in employee stock incentive plan</a>																		
<a href="#">Reduction in number of shares available for issuance after amendment approved by shareholders</a>																		
<a href="#">Stock options and stock appreciation rights exercise price percentage of the fair market value of the underlying stock on the grant date</a>																		
<a href="#">Expiration date for stock options and stock appreciation rights, max time from grant date after date, in years</a>																		
<a href="#">Share Based Compensation Arrangement By Share Based Payment Award Exercisable Percentage Minimum</a>																		
<a href="#">Share Based Compensation Arrangement By Share Based Payment Award Exercisable Percentage Maximum</a>																		
<a href="#">Unrecognized compensation cost related to unvested share-based awards</a>	\$ 2,300,000,000		\$ 2,300,000,000															
<a href="#">Expected period of recognition of compensation cost, years</a>			2 years 7 months 6 days															
<a href="#">Income tax benefit for employee share-based compensation expense</a>	\$ 80,000,000	\$ 93,000,000	\$ 159,000,000	\$ 183,000,000														
<a href="#">Shares reserved for issuance</a>																		
<a href="#">Share-based Compensation Arrangement by Share-based Payment Award, Discount from Market Price, Offering Date</a>																		
<a href="#">Closing stock price</a>																		
<a href="#">Shares for eligible employees, offering period</a>																		
<a href="#">Number of months in which stock options ratably exercise, minimum</a>																		
<a href="#">Number of months in which stock options ratably exercise, maximum</a>																		
<a href="#">Ratable vesting period, months</a>																		
<a href="#">Stock options exercisable</a>	413,000,000		413,000,000			512,000,000												
<a href="#">In-the-money exercisable stock option shares</a>	174,000,000		174,000,000															
<a href="#">Stock options exercisable, weighted-average exercise price per share</a>	\$ 23.31		\$ 23.31			\$ 22.65												
<a href="#">Shares issued under employee purchase plan</a>			18,000,000	18,000,000														
<a href="#">Shares held in Employee Stock Option Plan, Suspense Shares</a>																		
<a href="#">Share-based Compensation Arrangement by Share-based Payment Award, Equity Instruments Other than Options, Grants in Period</a>																		

Consolidated Statements Of Operations (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012
<b>NET SALES:</b>				
<u>Product</u>	\$ 9,437	\$ 9,118	\$ 18,734	\$ 18,070
<u>Service</u>	2,661	2,409	5,240	4,713
<u>Total net sales</u>	12,098	11,527	23,974	22,783
<b>COST OF SALES:</b>				
<u>Product</u>	3,857	3,650	7,605	7,213
<u>Service</u>	898	812	1,787	1,615
<u>Total cost of sales</u>	4,755	4,462	9,392	8,828
<b>GROSS MARGIN</b>	7,343	7,065	14,582	13,955
<b>OPERATING EXPENSES:</b>				
<u>Research and development</u>	1,452	1,339	2,883	2,714
<u>Sales and marketing</u>	2,387	2,395	4,803	4,847
<u>General and administrative</u>	584	497	1,144	1,049
<u>Amortization of purchased intangible assets</u>	118	97	240	196
<u>Restructuring and other charges</u>	13	3	72	205
<u>Total operating expenses</u>	4,554	4,331	9,142	9,011
<b>OPERATING INCOME</b>	2,789	2,734	5,440	4,944
<u>Interest income</u>	160	158	321	322
<u>Interest expense</u>	(147)	(150)	(295)	(298)
<u>Other income (loss), net</u>	(22)	7	(55)	26
<u>Interest and other income, net</u>	(9)	15	(29)	50
<b>INCOME BEFORE PROVISION FOR (BENEFIT FROM)</b>	2,780	2,749	5,411	4,994
<b>INCOME TAXES</b>				
<u>Provision for (benefit from) income taxes</u>	(363)	567	176	1,035
<b>NET INCOME</b>	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
<u>Net income per share-basic (in dollars per share)</u>	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
<u>Net income per share-diluted (in dollars per share)</u>	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
<u>Shares used in per-share calculation-basic (in shares)</u>	5,318	5,368	5,310	5,381
<u>Shares used in per-share calculation-diluted (in shares)</u>	5,357	5,401	5,344	5,404
<u>Cash dividends declared per common share (in dollars per share)</u>	\$ 0.14	\$ 0.06	\$ 0.28	\$ 0.12

**Summary of Significant  
Accounting Policies**  
**Summary of Significant  
Accounting Policies**

**6 Months Ended**

**Jan. 26, 2013**

[Accounting Policies](#)

[\[Abstract\]](#)

[Summary of Significant  
Accounting Policies](#)

**2. Recent Accounting Pronouncements**

**(a) New Accounting Updates Recently Adopted**

In June 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to provide guidance on increasing the prominence of items reported in other comprehensive income, which eliminated the option to present components of other comprehensive income as part of the statement of equity. The Company adopted this accounting standard in the first quarter of fiscal 2013.

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

**(b) Recent Accounting Standards or Updates Not Yet Effective**

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

In July 2012, the FASB issued an accounting standard update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, and early adoption is permitted. The adoption of this accounting standard update is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, at which time the Company will include the required disclosures

## Basis Of Presentation

**6 Months Ended  
Jan. 26, 2013**

### [Basis Of Presentation](#)

#### [\[Abstract\]](#)

### [Basis Of Presentation](#)

#### **1. Basis of Presentation**

The fiscal year for Cisco Systems, Inc. (the "Company" or "Cisco") is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2013 and fiscal 2012 are each 52-week fiscal years. The Consolidated Financial Statements include the accounts of Cisco and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company conducts business globally and is primarily managed on a geographic basis in the following three geographic segments: the Americas; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific, Japan, and China ("APJC").

The accompanying financial data as of January 26, 2013 and for the three and six months ended January 26, 2013 and January 28, 2012 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The July 28, 2012 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 28, 2012.

The Company consolidates its investment in a venture fund managed by SOFTBANK Corp. and its affiliates ("SOFTBANK") and Insieme Networks, Inc. ("Insieme") as these are variable interest entities and the Company is the primary beneficiary. The noncontrolling interests attributed to SOFTBANK are presented as a separate component from the Company's equity in the equity section of the Consolidated Balance Sheets. SOFTBANK's share of the earnings in the venture fund and the loss attributable to the noncontrolling interests in Insieme are not presented separately in the Consolidated Statements of Operations as these amounts are not material for any of the fiscal periods presented.

In the opinion of management, all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly the statement of financial position as of January 26, 2013; the results of operations for the three and six months ended January 26, 2013 and January 28, 2012; and the statements of cash flows and equity for the six months ended January 26, 2013 and January 28, 2012, as applicable, have been made. The results of operations for the three and six months ended January 26, 2013 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Certain reclassifications have been made to prior period amounts in order to conform to the current period's presentation. The Company has evaluated subsequent events through the date that the financial statements were issued.

## Shareholders' Equity

**6 Months Ended  
Jan. 26, 2013**

### Stockholders' Equity Note

#### [Abstract]

#### Shareholders' Equity

### 13. Shareholders' Equity

#### (a) Stock Repurchase Program

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 26, 2013, the Company's Board of Directors had authorized an aggregate repurchase of up to \$82 billion of common stock under this program, and the remaining authorized repurchase amount was \$5.1 billion with no termination date. A summary of the stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted- Average Price per Share	Amount Repurchased
Cumulative balance at July 28, 2012	3,740	\$ 20.36	\$ 76,133
Repurchase of common stock under the stock repurchase program	40	18.73	753
Cumulative balance at January 26, 2013	3,780	\$ 20.34	\$ 76,886

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

#### (b) Cash Dividends on Shares of Common Stock

During the six months ended January 26, 2013, the Company declared and paid cash dividends of \$0.28 per common share, or \$1.5 billion, on the Company's outstanding common stock. During the six months ended January 28, 2012, the Company declared and paid cash dividends of \$0.12 per common share, or \$644 million, on the Company's outstanding common stock.

Any future dividends will be subject to the approval of the Company's Board of Directors.

#### (c) Other Repurchases of Common Stock

For the six months ended January 26, 2013 and January 28, 2012, the Company repurchased approximately 11 million and 9 million shares, or \$212 million and \$145 million, of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

#### (d) Accumulated Other Comprehensive Income

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest, for the six months ended January 26, 2013 and January 28, 2012 are summarized as follows (in millions):

	Net Unrealized Gains on Investments	Net (Losses) Cash Flow Hedging Instruments	Net Unrealized Gains Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 28, 2012	\$ 409	\$ (53)	\$ 305	\$ 661



Other comprehensive income attributable to Cisco Systems, Inc.	52	65	120	237
BALANCE AT JANUARY 26, 2013	\$ 461	\$ 12	\$ 425	\$ 898
	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
BALANCE AT JULY 30, 2011	\$ 487	\$ 6	\$ 801	\$ 1,294
Other comprehensive loss attributable to Cisco Systems, Inc.	(59)	(68)	(317)	(444)
BALANCE AT JANUARY 28, 2012	\$ 428	\$ (62)	\$ 484	\$ 850

## Fair Value

6 Months Ended  
Jan. 26, 2013

### [Fair Value Disclosures](#)

#### [\[Abstract\]](#)

#### [Fair Value](#)

### 9. Fair Value

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

#### (a) Fair Value Hierarchy

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

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis as of January 26, 2013 and July 28, 2012 were as follows (in millions):

	JANUARY 26, 2013				JULY 28, 2012			
	FAIR VALUE MEASUREMENTS				FAIR VALUE MEASUREMENTS			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
<b>Assets</b>								
Cash equivalents:								
Money market funds	\$4,513	\$ —	\$ —	\$ 4,513	\$2,506	\$ —	\$ —	\$ 2,506
Available-for-sale investments:								
U.S. government securities	—	25,177	—	25,177	—	24,241	—	24,241
U.S. government agency securities	—	3,790	—	3,790	—	5,388	—	5,388

Non-U.S. government and agency securities	—	1,336	—	1,336	—	1,638	—	1,638
Corporate debt securities	—	7,118	—	7,118	—	6,030	—	6,030
Publicly traded equity securities	2,108	—	—	2,108	1,620	—	—	1,620
Derivative assets	—	244	—	244	—	263	1	264
<b>Total</b>	<b>\$6,621</b>	<b>\$37,665</b>	<b>\$ —</b>	<b>\$44,286</b>	<b>\$4,126</b>	<b>\$37,560</b>	<b>\$ 1</b>	<b>\$41,687</b>
Liabilities:								
Derivative liabilities	\$ —	\$ 57	\$ —	\$ 57	\$ —	\$ 42	\$ —	\$ 42
<b>Total</b>	<b>\$ —</b>	<b>\$ 57</b>	<b>\$ —</b>	<b>\$ 57</b>	<b>\$ —</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ 42</b>

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

Level 3 assets include certain derivative instruments, the values of which are determined based on discounted cash flow models using inputs that the Company could not corroborate with market data.

There was no material activity related to assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended January 26, 2013.

The following table presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended January 28, 2012 (in millions):

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

The Company's asset-backed securities were reclassified from Level 3 to Level 2 at January 28, 2012, the end of the Company's second quarter for fiscal 2012, as circumstances indicated an increase in market activity and related observable market data was available for these financial assets.

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

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

	January 26, 2013		
	Net Carrying Value as of End of Period	Total Losses for the Three Months Ended	Total Losses for the Six Months Ended
Investments in privately held companies	\$ 60	\$ (8)	\$ (18)

  

	January 28, 2012		
	Net Carrying Value as of End of Period	Total Gains (Losses) for the Three Months Ended	Total Gains (Losses) for the Six Months Ended
Investments in privately held companies	\$ 6	\$ (1)	\$ (2)
Property held for sale	\$ 39	(27)	(116)
Gains on assets no longer held at period end		14	14
Total losses for nonrecurring measurements		<u>\$ (14)</u>	<u>\$ (104)</u>

The assets in the preceding tables were measured at fair value due to events or circumstances the Company identified as having significant impact on their fair value during the respective periods. To arrive at the valuation of these assets, the Company considers any significant changes in the financial metrics and economic variables, and also uses third-party valuation reports to assist in the valuation as necessary. These assets were classified as Level 3 assets because the Company used unobservable inputs to value them.

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

The property held for sale represents land and buildings which met the criteria to be classified as held for sale. The fair value of property held for sale was measured with the assistance of third-party valuation models which used discounted cash flow techniques as part of their analysis. The fair value measurement was categorized as Level 3 as significant unobservable inputs were used in the valuation report. The impairment charges as a result of the valuations, which represented the difference between the fair value less cost to sell and the carrying amount of the assets held for sale, were included in G&A expenses.

**(d) Other Fair Value Disclosures**

The carrying value of the Company's investments in privately held companies that were accounted for under the cost method was \$239 million and \$249 million as of January 26, 2013 and July 28, 2012, respectively. It was not practicable to estimate the fair value of this portfolio.

The fair value of the Company's short-term loan receivables and financed service contracts approximates their carrying value due to their short duration. The aggregate carrying value of the Company's long-term loan receivables and financed service contracts and other as of January 26, 2013 and July 28, 2012 was \$2.0 billion and \$1.9 billion, respectively. The estimated fair value of the Company's long-term loan receivables and financed service contracts and other approximates their carrying value. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value of its long-term loan receivables and financed service contracts, and therefore they are categorized as Level 3.

As of January 26, 2013, the fair value of the Company's long-term debt was \$18.3 billion with a carrying amount of \$16.3 billion. This compares to a fair value of \$18.8 billion and a carrying amount of \$16.3 billion as of July 28, 2012. The fair value of the long-term debt was determined based on observable market prices in a less active market and was categorized as Level 2 in the fair value hierarchy.

Commitments And Contingencies (Additional Information) (Details) (USD \$)			3 Months Ended		6 Months Ended		3 Months Ended		6 Months Ended		42 Months Ended		6 Months Ended		Jan. 26, 2013	Jan. 26, 2012
	Jan. 26, 2013	Jul. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2013	Jan. 26, 2012
	Investor [Member]	Investor [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]	Acquisition [Member]
<a href="#">Site Contingency [Line Items]</a>																
<a href="#">Term of operating leases, in years</a>													1			
<a href="#">Unrecorded Unconditional Purchase Obligation</a>	\$ 3,824,000,000	\$ 3,869,000,000														
<a href="#">Other Commitment</a>	169,000,000	193,000,000														
<a href="#">Compensation expense connection with the business combinations and asset purchases</a>			23,000,000	14,000,000	35,000,000	28,000,000										
<a href="#">Future compensation expense &amp; contingent consideration</a>							1,100,000,000								750,000,000	863,000,000
<a href="#">Funding commitments</a>	133,000,000	120,000,000														
<a href="#">Cumulative investment in entity</a>									457,000,000	457,000,000	457,000,000					
<a href="#">Percentage of outstanding equity owned in entity</a>									35.00%	35.00%	35.00%					
<a href="#">Payments to Acquire Additional Interest in Subsidiaries</a>																35,000,000
<a href="#">Percentage of VCE's losses</a>										36.80%						
<a href="#">Income (Loss) from Equity Method Investments</a>									44,000,000	55,000,000	86,000,000	325,000,000				
<a href="#">VCE-Carrying Value</a>									132,000,000	132,000,000	132,000,000					
<a href="#">Variable Interest Entity, Financial or Other Support, Amount</a>									100,000,000							
<a href="#">Variable Interest Entity, Qualitative or Quantitative Information, Ownership Percentage</a>									87.00%							
<a href="#">Warranty Time Period</a>													90			
<a href="#">Warranty Period For Products</a>														5		
<a href="#">Brazilian authority claim of import tax evasion by importer, tax portion</a>	426,000,000															
<a href="#">Brazilian authority claim of import tax evasion by importer, interest portion</a>	1,100,000,000															
<a href="#">Brazilian authority claim of import tax evasion by importer, penalties portion</a>	\$ 1,900,000,000															

## Restructuring And Other Charges

6 Months Ended  
Jan. 26, 2013

### [Restructuring and Related Activities \[Abstract\]](#)

### [Restructuring and Other Charges](#)

#### 5. Restructuring and Other Charges

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

Pursuant to the restructuring that the Company announced in July 2011, the Company has incurred cumulative charges of approximately \$1.1 billion (included as part of the charges discussed below). The Company has substantially completed the July 2011 restructuring and does not expect significant remaining charges related to these actions. The following table summarizes the activities related to the restructuring and other charges pursuant to the Company's July 2011 announcement related to the realignment and restructuring of the Company's business as well as certain consumer product lines as announced during April 2011 (in millions):

	Voluntary Early Retirement Program	Employee Severance	Goodwill and Intangible Assets	Other	Total
Gross charges in fiscal 2011	\$ 453	\$ 247	\$ 71	\$ 28	\$ 799
Cash payments	(436)	(13)	—	—	(449)
Non-cash items	—	—	(71)	(17)	(88)
BALANCE AT JULY 30, 2011	\$ 17	\$ 234	\$ —	\$ 11	\$ 262
Gross charges in fiscal 2012	—	299	—	54	353
Change in estimate related to fiscal 2011 charges	—	(49)	—	—	(49)
Cash payments	(17)	(401)	—	(18)	(436)
Non-cash items	—	—	—	(20)	(20)
BALANCE AT JULY 28, 2012	\$ —	\$ 83	\$ —	\$ 27	\$ 110
Charges in fiscal 2013	—	77	—	(5)	72
Cash payments	—	(139)	—	(10)	(149)
Non-cash items	—	—	—	(3)	(3)
BALANCE AT JANUARY 26, 2013	\$ —	\$ 21	\$ —	\$ 9	\$ 30

**Financing Receivables And  
Guarantees (Schedule Of  
Financing Receivables  
Categorized By Internal  
Credit Risk Rating) (Detail)  
(USD \$)**

**In Millions, unless otherwise  
specified**

	Jan. 26, 2013	Jul. 28, 2012	Jan. 28, 2012
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	\$ 8,092	\$ 7,626	
Lease Receivables [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	3,444	3,179	3,049
Loan Receivables [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	1,785	1,796	1,673
Financed Service Contracts And Other [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	2,863	2,651	2,666
Rating One To Four [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	4,068	3,915	
<u>to be Received</u>			
Rating One To Four [Member]   Lease Receivables [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	1,607	1,532	
<u>to be Received</u>			
Rating One To Four [Member]   Loan Receivables [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	882	831	
<u>to be Received</u>			
Rating One To Four [Member]   Financed Service Contracts And Other [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	1,579	1,552	
<u>to be Received</u>			
Rating Five To Six [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	3,541	3,293	
<u>to be Received</u>			
Rating Five To Six [Member]   Lease Receivables [Member]			
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>			
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments</u>	1,505	1,342	
<u>to be Received</u>			
Rating Five To Six [Member]   Loan Receivables [Member]			



<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	857	921
Rating Five To Six [Member]   <u>Financed Service Contracts And Other [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	1,179	1,030
Rating Seven And Higher [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	209	144
Rating Seven And Higher [Member]   <u>Lease Receivables [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	58	31
Rating Seven And Higher [Member]   <u>Loan Receivables [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	46	44
Rating Seven And Higher [Member]   <u>Financed Service Contracts And Other [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	105	69
Total Internal Credit Risk Rating [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	7,818	7,352
Total Internal Credit Risk Rating [Member]   <u>Lease Receivables [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	3,170	2,905
Total Internal Credit Risk Rating [Member]   <u>Loan Receivables [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	1,785	1,796
Total Internal Credit Risk Rating [Member]   <u>Financed Service Contracts And Other [Member]</u>		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Minimum Payments to be Received</u>	2,863	2,651
Residual Value [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Unguaranteed Residual Values of Leased Property</u>	274	274

Residual Value [Member]   Lease Receivables [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Unguaranteed Residual Values of Leased Property</u>	274	274
Residual Value [Member]   Loan Receivables [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Unguaranteed Residual Values of Leased Property</u>	0	0
Residual Value [Member]   Financed Service Contracts And Other [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases, Unguaranteed Residual Values of Leased Property</u>	0	0
Internal Credit Risk Rating [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	8,092	7,626
Internal Credit Risk Rating [Member]   Lease Receivables [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	3,444	3,179
Internal Credit Risk Rating [Member]   Loan Receivables [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	1,785	1,796
Internal Credit Risk Rating [Member]   Financed Service Contracts And Other [Member]		
<b><u>Financing Receivables And Guarantees [Line Items]</u></b>		
<u>Capital Leases, Net Investment in Direct Financing Leases</u>	\$ 2,863	\$ 2,651

[Business Combinations](#)[\[Abstract\]](#)[Business Combinations](#)**3. Business Combinations****(a) Acquisition Summary**

On July 30, 2012, the Company completed its acquisition of NDS Group Limited (“NDS”), a leading provider of video software and content security solutions that enable service providers and media companies to securely deliver and monetize new video entertainment experiences. The acquisition of NDS is expected to complement and accelerate the delivery of Cisco Videoscape, the Company's comprehensive content delivery platform that enables service providers and media companies to deliver next-generation entertainment experiences. With the NDS acquisition, the Company aims to broaden its opportunities in the service provider market and to expand its reach into emerging markets such as China and India, where NDS has an established customer presence.

Under the terms of the acquisition agreement, the Company paid total cash consideration of approximately \$5.0 billion, which included the repayment of \$993 million of pre-existing NDS debt to third party creditors at the closing of the acquisition. The following table summarizes the purchase consideration for the NDS acquisition (in millions):

	Fair Value
Cash consideration to seller	\$ 4,012
Repayment of NDS debt to third party creditors	993
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

The payment of the total purchase consideration of approximately \$5.0 billion shown above, net of cash and cash equivalents acquired, is classified as a use of cash under investing activities in the Consolidated Statements of Cash Flows.

The Company's purchase price allocation for NDS is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

A summary of the preliminary allocation of the total purchase consideration for NDS is presented as follows (in millions):

	Fair Value
Cash and cash equivalents	\$ 98
Accounts receivable, net	199
Other tangible assets	268
Goodwill	3,444
Purchased intangible assets	1,746
Deferred tax liabilities, net	(378)
Liabilities assumed	(372)
<b>Total purchase consideration</b>	<b>\$ 5,005</b>

The Company completed seven additional business combinations during the six months ended January 26, 2013. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Purchase Consideration	Net Liabilities Assumed	Purchased Intangible Assets	Goodwill
Meraki Inc.	\$ 974	\$ (59)	\$ 289	\$ 744
All others (six in total)	233	(15)	72	176
<b>Total other acquisitions</b>	<b>\$ 1,207</b>	<b>\$ (74)</b>	<b>\$ 361</b>	<b>\$ 920</b>

The Company acquired privately held Meraki Inc. ("Meraki") in the second quarter of fiscal 2013. Meraki offers mid-market customers on-premise networking solutions centrally managed from the cloud. With its acquisition of Meraki, the Company intends to address the shift to cloud networking as a key part of the Company's overall strategy to accelerate the adoption of software-based business models that provide new consumption options for customers and revenue opportunities for partners. The Company has included sales from the Meraki acquisition, subsequent to the acquisition date, in its Wireless product category.

The total purchase consideration related to the Company's business combinations completed during the six months ended January 26, 2013 consisted of cash consideration, repayment of debt, and vested share-based awards assumed. The total cash and cash equivalents acquired from these business combinations were approximately \$131 million.

**(b) Other Acquisition/Divestiture Information**

Total transaction costs related to the Company's business combination activities were \$17 million and \$2 million for the six months ended January 26, 2013 and January 28, 2012, respectively. These transaction costs were expensed as incurred as general and administrative ("G&A") expenses in the Consolidated Statements of Operations.

The goodwill generated from the Company's business combinations completed during the six months ended January 26, 2013 is primarily related to expected synergies. The goodwill is generally not deductible for U.S. federal income tax purposes.

The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations for the acquisitions completed during the six months ended January 26, 2013 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's financial results.

During the second quarter of fiscal 2013, the Company agreed to sell its Linksys product line to a third party. The financial statement impact of the Company's Linksys product line was not material for any of the periods presented. This transaction is expected to close during the third quarter of fiscal 2013, subject to customary closing conditions.

**(c) Pending Acquisition of Intucell**

On January 23, 2013, the Company announced that it had entered into a definitive agreement to acquire privately held Intucell Ltd. ("Intucell"). Intucell provides advanced self-optimizing network software for mobile carriers. The acquisition of Intucell enhances the Company's commitment to global service providers by adding a critical network intelligence layer to manage and optimize spectrum, coverage and capacity, and ultimately the quality of the mobile experience.

Under the agreement, the Company has agreed to pay approximately \$475 million in cash and retention-based incentives to acquire Intucell. The acquisition is expected to close in the third quarter of fiscal 2013 and is subject to customary closing conditions, including regulatory review.

**Goodwill And Purchased  
Intangible Assets**

**6 Months Ended  
Jan. 26, 2013**

**Goodwill and Intangible  
Assets Disclosure [Abstract]**

**Goodwill And Purchased  
Intangible Assets**

**4. Goodwill and Purchased Intangible Assets**

**(a) Goodwill**

The following table presents the goodwill allocated to the Company's reportable segments as of and during the six months ended January 26, 2013 (in millions):

	Balance at July 28, 2012	NDS Acquisition	Other Acquisitions	Other	Balance at January 26, 2013
Americas	\$ 11,755	\$ 1,230	\$ 520	\$ (1)	\$ 13,504
EMEA	3,287	1,327	266	—	4,880
APJC	1,956	887	134	—	2,977
Total	\$ 16,998	\$ 3,444	\$ 920	\$ (1)	\$ 21,361

In the preceding table, the column entitled "Other" primarily relates to purchase accounting adjustments.

**(b) Purchased Intangible Assets**

The following table presents details of the Company's intangible assets acquired through business combinations completed during the six months ended January 26, 2013 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES		TOTAL
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D	Amount	
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount			
NDS Group Limited	6.4	\$ 807	6.7	\$ 818	7.4	\$ 27	\$ 94	\$ 1,746	
Meraki Inc.	8.0	259	6.0	30	—	—	—	289	
All other acquisitions	4.7	45	5.6	12	7.0	1	14	72	
Total		\$ 1,111		\$ 860		\$ 28	\$ 108	\$ 2,107	

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

January 26, 2013	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 3,400	\$ (1,154)	\$ 2,246
Customer relationships	3,118	(1,890)	1,228
Other	67	(41)	26
Total purchased intangible assets with finite lives	6,585	(3,085)	3,500
In-process research and development, with indefinite lives	42	—	42
Total	\$ 6,627	\$ (3,085)	\$ 3,542

July 28, 2012	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 2,267	\$ (908)	\$ 1,359
Customer relationships	2,261	(1,669)	592
Other	49	(41)	8
Total	\$ 4,577	\$ (2,618)	\$ 1,959

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

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 26, 2012
<b>Amortization of purchased intangible assets:</b>				
Cost of sales	\$ 145	\$ 99	\$ 288	\$ 195
Operating expenses	118	97	240	196
Total	<u>\$ 263</u>	<u>\$ 196</u>	<u>\$ 528</u>	<u>\$ 391</u>

There were no impairment charges related to purchased intangible assets during the periods presented.

The estimated future amortization expense of purchased intangible assets with finite lives as of January 26, 2013 is as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 467
2014	840
2015	760
2016	533
2017	380
Thereafter	520
Total	<u>\$ 3,500</u>

## Balance Sheet Details

6 Months Ended  
Jan. 26, 2013

### [Disclosure Balance Sheet Details](#)

#### [\[Abstract\]](#)

#### [Balance Sheet Details](#)

#### 6. Balance Sheet Details

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

	January 26, 2013	July 28, 2012
<b>Inventories:</b>		
Raw materials	\$ 113	\$ 127
Work in process	24	35
Finished goods:		
Distributor inventory and deferred cost of sales	648	630
Manufactured finished goods	498	597
Total finished goods	1,146	1,227
Service-related spares	248	213
Demonstration systems	43	61
Total	<u>\$ 1,574</u>	<u>\$ 1,663</u>
<b>Property and equipment, net:</b>		
Land, buildings, and building and leasehold improvements	\$ 4,491	\$ 4,363
Computer equipment and related software	1,455	1,469
Production, engineering, and other equipment	5,642	5,364
Operating lease assets <sup>(1)</sup>	304	300
Furniture and fixtures	493	487
	12,385	11,983
Less accumulated depreciation and amortization <sup>(1)</sup>	(8,982)	(8,581)
Total	<u>\$ 3,403</u>	<u>\$ 3,402</u>
<b>Other assets:</b>		
Deferred tax assets	\$ 1,807	\$ 2,270
Investments in privately held companies	869	858
Other	834	754
Total	<u>\$ 3,510</u>	<u>\$ 3,882</u>
<b>Deferred revenue:</b>		
Service	\$ 9,055	\$ 9,173
Product:		
Unrecognized revenue on product shipments and other deferred revenue	3,309	2,975
Cash receipts related to unrecognized revenue from two-tier distributors	957	732
Total product deferred revenue	4,266	3,707
Total	<u>\$ 13,321</u>	<u>\$ 12,880</u>

<sup>(1)</sup> Accumulated depreciation related to operating lease assets was \$186 and \$181 as of January 26, 2013 and July 28, 2012, respectively.

Reported as:		
Current	\$ 9,108	\$ 8,852
Noncurrent	4,213	4,028
Total	\$ 13,321	\$ 12,880



**Investments - Additional  
Information (Detail) (USD \$)  
In Billions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26,      Jan. 28,  
2013            2012**

**Disclosure Investments Additional Information [Abstract]**

Average Balance Of Securities Lending

\$ 0.8            \$ 0.4

Fair Value Of Securities Received As Collateral That Can Be Resold Or RePledged  
Percentage

102.00%

**Commitments And  
Contingencies (Schedule Of  
Future Annual Minimum  
Lease Payments Under All  
Noncancelable Operating  
Leases) (Details) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, 2013**

**Operating Leases, Future Minimum Payments Due, Fiscal Year Maturity [Abstract]**

<u>2013 (remaining six months)</u>	\$ 182
<u>2014</u>	281
<u>2015</u>	237
<u>2016</u>	120
<u>2017</u>	83
<u>Thereafter</u>	226
<u>Total</u>	\$ 1,129

Investments (Gross Realized Gains And Gross Realized Losses Related To Available- For-Sale Investments (Detail) (USD \$) In Millions, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jan. 26, 2013	Jan. 28, 2012	Jan. 26, 2013	Jan. 28, 2012

**Available-for-sale Securities, Gross Realized Gain (Loss)**

**[Abstract]**

<u>Available-for-sale Securities, Gross Realized Gains</u>	\$ 191	\$ 188	\$ 263	\$ 424
<u>Available-for-sale Securities, Gross Realized Losses</u>	(178)	(151)	(223)	(378)
<u>Available-for-sale Securities, Gross Realized Gain (Loss)</u>	\$ 13	\$ 37	\$ 40	\$ 46

**Segment Information And  
Major Customers (Property  
And Equipment, Net)  
(Detail) (USD \$)**

**Jan. 26, 2013 Jul. 28, 2012**

**In Millions, unless otherwise  
specified**

**Segment Reporting Information [Line Items]**

Property and equipment, net \$ 3,403 \$ 3,402

International [Member]

**Segment Reporting Information [Line Items]**

Property and equipment, net 595 560

United States [Member]

**Segment Reporting Information [Line Items]**

Property and equipment, net \$ 2,808 \$ 2,842

**Financing Receivables And  
Guarantees (Schedule Of  
Financing Guarantees  
Outstanding) (Detail) (USD  
\$)**

**Jan. 26,  
2013      Jul. 28,  
2012**

**In Millions, unless otherwise  
specified**

**Loss Contingencies [Line Items]**

Maximum potential future payments relating to financing guarantees      \$ 745      \$ 509

Deferred revenue associated with financing guarantees      (484)      (393)

Maximum potential future payments relating to financing guarantees, net of associated deferred revenue      261      116

Channel Partner [Member]

**Loss Contingencies [Line Items]**

Maximum potential future payments relating to financing guarantees      491      277

Deferred revenue associated with financing guarantees      (267)      (193)

End User [Member]

**Loss Contingencies [Line Items]**

Maximum potential future payments relating to financing guarantees      254      232

Deferred revenue associated with financing guarantees      \$ (217)      \$ (200)

**Employee Benefit Plans  
(Summary Of Share-Based  
Awards Available For Grant)  
(Detail)  
In Millions, unless otherwise  
specified**

<b>6 Months Ended</b>	<b>12 Months Ended</b>
<b>Jan. 26, 2013</b>	<b>Jul. 28, 2012</b>

**Share-based Compensation Arrangement by Share-based Payment Award,  
Options Available for Grant [Roll Forward]**

<u>Beginning balance</u>	218	255
<u>Restricted stock, stock units, and other share-based awards granted and assumed</u>	(78)	(95)
<u>Share-based awards canceled/forfeited/expired</u>	89	64
<u>Stock Option And Other Share Based Awards Granted</u>	(3)	(6)
<u>Ending balance</u>	226	218

## Financing Receivables And Guarantees (Tables)

6 Months Ended

Jan. 26, 2013

### [Financing Receivables And Guarantees \[Abstract\]](#)

### [Financing Receivables](#)

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

	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total Financing Receivables
<u>January 26, 2013</u>				
Gross	\$ 3,717	\$ 1,785	\$ 2,863	\$ 8,365
Unearned income	(273)	—	—	(273)
Allowance for credit loss	(247)	(101)	(13)	(361)
Total, net	\$ 3,197	\$ 1,684	\$ 2,850	\$ 7,731
Reported as:				
Current	\$ 1,349	\$ 960	\$ 1,585	\$ 3,894
Noncurrent	1,848	724	1,265	3,837
Total, net	\$ 3,197	\$ 1,684	\$ 2,850	\$ 7,731
<u>July 28, 2012</u>				
Gross	\$ 3,429	\$ 1,796	\$ 2,651	\$ 7,876
Unearned income	(250)	—	—	(250)
Allowance for credit loss	(247)	(122)	(11)	(380)
Total, net	\$ 2,932	\$ 1,674	\$ 2,640	\$ 7,246
Reported as:				
Current	\$ 1,200	\$ 968	\$ 1,493	\$ 3,661
Noncurrent	1,732	706	1,147	3,585
Total, net	\$ 2,932	\$ 1,674	\$ 2,640	\$ 7,246

### [Contractual Maturities Of The Gross Lease Receivables](#)

Contractual maturities of the gross lease receivables at January 26, 2013 are summarized as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ 878
2014	1,345
2015	863
2016	437
2017	194
Total	\$ 3,717

### [Schedule Of Internal Credit Risk Rating For Each Portfolio Segment And Class](#)

Financing receivables categorized by the Company's internal credit risk rating as of January 26, 2013 and July 28, 2012 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING				Residual Value	Gross Receivables, Net of Unearned Income
	1 to 4	5 to 6	7 and Higher	Total		
<u>January 26, 2013</u>						
Lease receivables	\$ 1,607	\$ 1,505	\$ 58	\$ 3,170	\$ 274	\$ 3,444
Loan receivables	882	857	46	1,785	—	1,785
Financed service contracts and other	1,579	1,179	105	2,863	—	2,863
Total	\$ 4,068	\$ 3,541	\$ 209	\$ 7,818	\$ 274	\$ 8,092
<u>July 28, 2012</u>						
Lease receivables	\$ 1,532	\$ 1,342	\$ 31	\$ 2,905	\$ 274	\$ 3,179

Loan receivables	831	921	44	1,796	—	1,796
Financed service contracts and other	1,552	1,030	69	2,651	—	2,651
Total	\$ 3,915	\$ 3,293	\$ 144	\$ 7,352	\$ 274	\$ 7,626

[Schedule Of Financing Receivables By Portfolio Segment And Class Aging Analysis](#)

The following tables present the aging analysis of financing receivables as of January 26, 2013 and July 28, 2012 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)				Current	Gross Receivables, Net of Unearned Income	Non-Accrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+	Total Past Due				
<u>January 26, 2013</u>								
Lease receivables	\$ 182	\$ 34	\$ 230	\$ 446	\$ 2,998	\$ 3,444	\$ 49	\$ 33
Loan receivables	12	3	11	26	1,759	1,785	32	32
Financed service contracts and other	305	37	251	593	2,270	2,863	21	13
Total	\$ 499	\$ 74	\$ 492	\$ 1,065	\$ 7,027	\$ 8,092	\$ 102	\$ 78

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)				Current	Gross Receivables, Net of Unearned Income	Non-Accrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+	Total Past Due				
<u>July 28, 2012</u>								
Lease receivables	\$ 151	\$ 69	\$ 173	\$ 393	\$ 2,786	\$ 3,179	\$ 23	\$ 14
Loan receivables	10	8	11	29	1,767	1,796	4	4
Financed service contracts and other	89	68	392	549	2,102	2,651	18	10
Total	\$ 250	\$ 145	\$ 576	\$ 971	\$ 6,655	\$ 7,626	\$ 45	\$ 28

[Allowance For Credit Loss And Related Financing Receivables](#)

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

	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 28, 2012	\$ 247	\$ 122	\$ 11	\$ 380
Provisions	(2)	(10)	1	(11)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	3	2	—	5
Allowance for credit loss as of October 27, 2012	248	114	12	374
Provisions	(1)	(14)	2	(13)
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	—	1	(1)	—
Allowance for credit loss as of January 26, 2013	\$ 247	\$ 101	\$ 13	\$ 361
Gross receivables as of January 26, 2013, net of unearned income	\$ 3,444	\$ 1,785	\$ 2,863	\$ 8,092

	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 30, 2011	\$ 237	\$ 103	\$ 27	\$ 367
Provisions	2	5	2	9
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(6)	(5)	—	(11)
Allowance for credit loss as of October 29, 2011	233	103	29	365



Provisions	18	4	(18)	4
Write-offs net of recoveries	—	—	—	—
Foreign exchange and other	(1)	3	(2)	—
Allowance for credit loss as of January 28, 2012	<u>\$ 250</u>	<u>\$ 110</u>	<u>\$ 9</u>	<u>\$ 369</u>
Gross receivables as of January 28, 2012, net of unearned income	\$ 3,049	\$ 1,673	\$ 2,666	\$ 7,388

## Financing Guarantees

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at January 26, 2013 and July 28, 2012, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

	January 26, 2013	July 28, 2012
<u>Maximum potential future payments relating to financing guarantees:</u>		
Channel partner	\$ 491	\$ 277
End user	254	232
Total	<u>\$ 745</u>	<u>\$ 509</u>
<u>Deferred revenue associated with financing guarantees:</u>		
Channel partner	\$ (267)	\$ (193)
End user	(217)	(200)
Total	<u>\$ (484)</u>	<u>\$ (393)</u>
<u>Maximum potential future payments relating to financing guarantees, net of associated deferred revenue</u>	<u>\$ 261</u>	<u>\$ 116</u>

**Goodwill And Purchased  
Intangible Assets (Schedule  
Of Amortization Of  
Purchased Intangible Assets)  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**3 Months Ended**

**6 Months Ended**

**Jan. 26, 2013 Jan. 28, 2012 Jan. 26, 2013 Jan. 28, 2012**

**Acquired Finite-Lived Intangible Assets [Line Items]**

**Amortization of Acquired Intangible Assets**

\$ 263      \$ 196      \$ 528      \$ 391

Cost of Sales [Member]

**Acquired Finite-Lived Intangible Assets [Line Items]**

**Amortization of Acquired Intangible Assets**

145      99      288      195

Operating Expenses [Member]

**Acquired Finite-Lived Intangible Assets [Line Items]**

**Amortization of Acquired Intangible Assets**

\$ 118      \$ 97      \$ 240      \$ 196

## Derivative Instruments

6 Months Ended

Jan. 26, 2013

[Derivative Instruments and Hedging Activities Disclosure \[Abstract\]](#)  
[Derivative Instruments](#)

### 11. Derivative Instruments

#### (a) Summary of Derivative Instruments

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

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

	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
	Balance Sheet Line Item	January 26, 2013	July 28, 2012	Balance Sheet Line Item	January 26, 2013	July 28, 2012
Derivatives designated as hedging instruments:						
Foreign currency derivatives	Other current assets	\$ 34	\$ 24	Other current liabilities	\$ 2	\$ 26
Interest rate derivatives	Other assets	194	223	Other long-term liabilities	—	—
Equity derivatives	Other current assets	—	—	Other current liabilities	43	4
<b>Total</b>		<b>228</b>	<b>247</b>		<b>45</b>	<b>30</b>
Derivatives not designated as hedging instruments:						
Foreign currency derivatives	Other current assets	16	16	Other current liabilities	12	12
Equity derivatives	Other assets	—	1	Other long-term liabilities	—	—
<b>Total</b>		<b>16</b>	<b>17</b>		<b>12</b>	<b>12</b>
<b>Total</b>		<b>\$ 244</b>	<b>\$ 264</b>		<b>\$ 57</b>	<b>\$ 42</b>

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

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)			GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		
	January 26, 2013	January 28, 2012	Line Item in Statements of Operations	January 26, 2013	January 28, 2012	
Derivatives designated as cash flow hedging instruments:						
Foreign currency derivatives	\$ 3	\$ (44)	Operating expenses	\$ 6	\$ (22)	
			Cost of sales - service	2	(4)	
<b>Total</b>	<b>\$ 3</b>	<b>\$ (44)</b>		<b>\$ 8</b>	<b>\$ (26)</b>	

Derivatives designated as net investment hedging instruments:						
Foreign currency derivatives	\$ —	\$ (2)	Other income (loss), net	\$ —	\$ —	

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)			GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)		
	January 26, 2013	January 28, 2012	Line Item in Statements of Operations	January 26, 2013	January 28, 2012	
Derivatives designated as cash flow hedging instruments:						
Foreign currency derivatives	\$ 69	\$ (94)	Operating expenses	\$ 2	\$ (22)	
			Cost of sales - service	1	(4)	
<b>Total</b>	<b>\$ 69</b>	<b>\$ (94)</b>		<b>\$ 3</b>	<b>\$ (26)</b>	

Derivatives designated as net investment hedging instruments:

Foreign currency derivatives	\$ (24)	\$ (6)	Other income (loss), net	\$ —	\$ —
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During the three and six months ended January 26, 2013 and January 28, 2012, the amounts recognized in earnings on derivative instruments designated as cash flow hedges and net investment hedges related to the ineffective portion were not material, and the Company did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness.

As of January 26, 2013, the Company estimates that approximately \$25 million of net derivative gains related to its cash flow hedges included in accumulated other comprehensive income ("AOCI") will be reclassified into earnings within the next 12 months.

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

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE THREE MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE THREE MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (39)	\$ —	\$ 39	\$ —
Interest rate derivatives	Interest expense	(11)	41	11	(42)
<b>Total</b>		<b>\$ (50)</b>	<b>\$ 41</b>	<b>\$ 50</b>	<b>\$ (42)</b>

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE SIX MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (42)	\$ —	\$ 42	\$ —
Interest rate derivatives	Interest expense	(29)	76	29	(78)
<b>Total</b>		<b>\$ (71)</b>	<b>\$ 76</b>	<b>\$ 71</b>	<b>\$ (78)</b>

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

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

Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) FOR THE THREE MONTHS ENDED		GAINS (LOSSES) FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Foreign currency derivatives	Other income (loss), net	\$ (41)	\$ (88)	\$ 12	\$ (145)
Total return swaps - deferred compensation	Cost of sales	—	3	—	3
	Operating expenses	19	10	33	(10)
Equity derivatives	Other income (loss), net	3	(18)	12	(11)
<b>Total</b>		<b>\$ (19)</b>	<b>\$ (93)</b>	<b>\$ 57</b>	<b>\$ (163)</b>

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

	January 26, 2013	July 28, 2012
Derivatives designated as hedging instruments:		
Foreign currency derivatives - cash flow hedges	\$ 1,646	\$ 2,910
Interest rate derivatives	4,250	4,250

Net investment hedging instruments	325	468
Equity derivatives	629	272
Derivatives not designated as hedging instruments:		
Foreign currency derivatives	4,231	6,241
Total return swaps-deferred compensation	324	269
Total	\$ 11,405	\$ 14,410

#### (b) Foreign Currency Exchange Risk

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

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

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

The Company hedges certain net investments in its foreign operations with forward contracts to reduce the effects of foreign currency fluctuations on the Company's net investment in those foreign subsidiaries. These derivative instruments generally have maturities of up to six months.

#### (c) Interest Rate Risk

Interest Rate Derivatives, Investments The Company's primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. To realize these objectives, the Company may utilize interest rate swaps or other derivatives designated as fair value or cash flow hedges. As of January 26, 2013 and July 28, 2012, the Company did not have any outstanding interest rate derivatives related to its fixed income securities.

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

#### (d) Equity Price Risk

The Company may hold equity securities for strategic purposes or to diversify its overall investment portfolio. The publicly traded equity securities in the Company's portfolio are subject to price risk. To manage its exposure to changes in the fair value of certain equity securities, the Company may enter into equity derivatives that are designated as fair value hedges. The changes in the value of the hedging instruments are included in other income (loss), net, and offset the change in the fair value of the underlying hedged investment. In addition, the Company periodically manages the risk of its investment portfolio by entering into equity derivatives that are not designated as accounting hedges. The changes in the fair value of these derivatives are also included in other income (loss), net.

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

#### (e) Credit-Risk-Related Contingent Features

Certain derivative instruments are executed under agreements that have provisions requiring the Company and the counterparty to maintain a specified credit rating from certain credit rating agencies. If the Company's or the counterparty's credit-rating falls below a specified credit rating, either party has the right to request collateral on the

derivatives' net liability position. Such provisions did not affect the Company's financial position as of January 26, 2013 and July 28, 2012.

**Segment Information And  
Major Customers**

**6 Months Ended  
Jan. 26, 2013**

[Segment Reporting](#)

[\[Abstract\]](#)

[Segment Information and  
Major Customers](#)

**16. Segment Information and Major Customers**

**(a) Net Sales and Gross Margin by Segment**

The Company conducts business globally and is primarily managed on a geographic basis consisting of three segments: the Americas; EMEA; and APJC. The Company's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to a segment based on the ordering location of the customer. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its segments in this internal management system because management does not include the information in its measurement of the performance of the operating segments. In addition, the Company does not allocate amortization and impairment of acquisition-related intangible assets, share-based compensation expense, impacts to cost of sales from purchase accounting adjustments to inventory, charges related to asset impairments and restructurings, and certain other charges to the gross margin for each segment because management does not include this information in its measurement of the performance of the operating segments.

Summarized financial information by segment for the three and six months ended January 26, 2013 and January 28, 2012, based on the Company's internal management system and as utilized by the Company's Chief Operating Decision Maker ("CODM"), is as follows (in millions):

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Net sales:</b>				
Americas	\$ 7,136	\$ 6,552	\$ 14,159	\$ 13,140
EMEA	3,093	3,250	5,934	6,095
APJC	1,869	1,725	3,881	3,548
<b>Total</b>	<b>\$ 12,098</b>	<b>\$ 11,527</b>	<b>\$ 23,974</b>	<b>\$ 22,783</b>
<b>Gross margin:</b>				
Americas	4,413	4,106	8,881	8,266
EMEA	2,008	2,095	3,806	3,849
APJC	1,121	992	2,297	2,100
<b>Segment total</b>	<b>7,542</b>	<b>7,193</b>	<b>14,984</b>	<b>14,215</b>
<b>Unallocated corporate items</b>	<b>(199)</b>	<b>(128)</b>	<b>(402)</b>	<b>(260)</b>
<b>Total</b>	<b>\$ 7,343</b>	<b>\$ 7,065</b>	<b>\$ 14,582</b>	<b>\$ 13,955</b>

Net sales in the United States, which is included in the Americas, were \$6.1 billion and \$5.6 billion for the three months ended January 26, 2013 and January 28, 2012, respectively, and were \$12.2 billion and \$11.2 billion for the six months ended January 26, 2013 and January 28, 2012, respectively.

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

The Company designs, manufactures, and sells Internet Protocol ("IP")-based networking and other products related to the communications and IT industry and provides services associated with these products and their use. The Company groups its products and technologies into the following categories: Switching, NGN Routing, Service Provider Video, Collaboration, Data Center, Wireless, Security, and Other Products. These products, primarily integrated by Cisco

IOS Software, link geographically dispersed local-area networks ("LANs"), metropolitan-area networks ("MANs"), and wide-area networks ("WANs"). The Company has made certain reclassifications to the prior period amounts to conform to the current period's presentation.

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
<b>Net sales:</b>				
Switching	\$ 3,724	\$ 3,621	\$ 7,340	\$ 7,308
NGN Routing	1,946	2,068	3,998	4,162
Service Provider Video	1,220	1,014	2,368	1,897
Collaboration	945	1,060	1,965	2,168
Data Center	548	333	965	592
Wireless	520	409	1,006	762
Security	336	333	674	652
Other	198	280	418	529
Product	9,437	9,118	18,734	18,070
Service	2,661	2,409	5,240	4,713
Total	<u>\$ 12,098</u>	<u>\$ 11,527</u>	<u>\$ 23,974</u>	<u>\$ 22,783</u>

**(c) Additional Segment Information**

The majority of the Company's assets, excluding cash and cash equivalents and investments, as of January 26, 2013 and July 28, 2012 were attributable to its U.S. operations. The Company's total cash and cash equivalents and investments held by various foreign subsidiaries were \$39.4 billion and \$42.5 billion as of January 26, 2013 and July 28, 2012, respectively, and the remaining \$7.0 billion and \$6.2 billion at the respective period ends was available in the United States.

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

	January 26, 2013	July 28, 2012
<b>Property and equipment, net:</b>		
United States	\$ 2,808	\$ 2,842
International	595	560
Total	<u>\$ 3,403</u>	<u>\$ 3,402</u>



**Employee Stock Plans  
(Summary Of Significant  
Ranges Of Outstanding And  
Exercisable Stock Options)  
(Detail) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

**6 Months Ended**

**Share-based Compensation Arrangement by Share-based  
Payment Award [Line Items]**

	<b>Jan. 26, 2013</b>	<b>Jul. 28, 2012</b>	<b>Jul. 27, 2012</b>	<b>Jul. 30, 2011</b>
<u>Stock options outstanding</u>	419	520		621
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	2 years 5 months 8 days			
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 23.08	\$ 22.68		\$ 21.79
<u>Stock options outstanding, aggregate intrinsic value</u>	\$ 590			
<u>Stock options exercisable</u>	413	512		
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 23.31		\$ 22.65	
<u>Stock options exercisable, aggregate intrinsic value</u>	500			
\$0.01 - 15.00				

**Share-based Compensation Arrangement by Share-based  
Payment Award [Line Items]**

<u>Stock options outstanding</u>	11			
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	5 years 9 months 18 days			
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 4.83			
<u>Stock options outstanding, aggregate intrinsic value</u>	181			
<u>Stock options exercisable</u>	7			
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 7.20			
<u>Stock options exercisable, aggregate intrinsic value</u>	91			
\$15.01 - 18.00				

**Share-based Compensation Arrangement by Share-based  
Payment Award [Line Items]**

<u>Stock options outstanding</u>	69			
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	1 year 7 months 28 days			
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 17.79			
<u>Stock options outstanding, aggregate intrinsic value</u>	232			
<u>Stock options exercisable</u>	69			
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 17.79			

<u>Stock options exercisable, aggregate intrinsic value</u>	231
\$18.01 - 20.00	
<b><u>Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</u></b>	
<u>Stock options outstanding</u>	86
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	10 months 10 days
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 19.17
<u>Stock options outstanding, aggregate intrinsic value</u>	170
<u>Stock options exercisable</u>	86
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 19.17
<u>Stock options exercisable, aggregate intrinsic value</u>	170
\$20.01 - 25.00	
<b><u>Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</u></b>	
<u>Stock options outstanding</u>	129
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	2 years 5 months 23 days
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 22.77
<u>Stock options outstanding, aggregate intrinsic value</u>	7
<u>Stock options exercisable</u>	128
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 22.77
<u>Stock options exercisable, aggregate intrinsic value</u>	8
\$25.01 - 35.00	
<b><u>Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</u></b>	
<u>Stock options outstanding</u>	124
<u>Stock options outstanding, weighted-average remaining contractual life (in years)</u>	3 years 7 months 13 days
<u>Stock options outstanding, weighted-average exercise price per share</u>	\$ 30.69
<u>Stock options outstanding, aggregate intrinsic value</u>	0
<u>Stock options exercisable</u>	123
<u>Stock options exercisable, weighted-average exercise price per share</u>	\$ 30.71
<u>Stock options exercisable, aggregate intrinsic value</u>	\$ 0

**Goodwill And Purchased  
Intangible Assets (Schedule  
Of Intangible Assets  
Acquired Through Business  
Combinations) (Detail) (USD  
\$)  
In Millions, unless otherwise  
specified**

**6 Months Ended**

**Jan. 26, 2013**

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired indefinite and finite-lived intangible assets \$ 2,107  
IPR&D With Indefinite Lives [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired indefinite lives 108  
Technology [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired finite-lived 1,111  
Customer Relationships [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired finite-lived 860  
Finite Lived Intangible Other [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired finite-lived 28  
NDS Group Limited [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired indefinite and finite-lived intangible assets 1,746  
NDS Group Limited [Member] | IPR&D With Indefinite Lives [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Amount, acquired indefinite lives 94  
NDS Group Limited [Member] | Technology [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Weighted-Average Useful Life (in Years) 6 years 4 months  
24 days  
Amount, acquired finite-lived 807

NDS Group Limited [Member] | Customer Relationships [Member]

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

<a href="#">Weighted-Average Useful Life (in Years)</a>	6 years 8 months
<a href="#">Amount, acquired finite-lived</a>	4 days
NDS Group Limited [Member]   Finite Lived Intangible Other [Member]	818
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Weighted-Average Useful Life (in Years)</a>	7 years 4 months
<a href="#">Amount, acquired finite-lived</a>	24 days
Meraki, Inc. [Member]	27
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Amount, acquired indefinite and finite-lived intangible assets</a>	289
Meraki, Inc. [Member]   Technology [Member]	
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Weighted-Average Useful Life (in Years)</a>	8 years
<a href="#">Amount, acquired finite-lived</a>	259
Meraki, Inc. [Member]   Customer Relationships [Member]	
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Weighted-Average Useful Life (in Years)</a>	6 years
<a href="#">Amount, acquired finite-lived</a>	30
Other Acquisition [Member]	
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Amount, acquired indefinite and finite-lived intangible assets</a>	72
Other Acquisition [Member]   IPR&D With Indefinite Lives [Member]	
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Amount, acquired indefinite lives</a>	14
Other Acquisition [Member]   Technology [Member]	
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Weighted-Average Useful Life (in Years)</a>	4 years 8 months
<a href="#">Amount, acquired finite-lived</a>	12 days
Other Acquisition [Member]   Customer Relationships [Member]	45
<a href="#">Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]</a>	
<a href="#">Weighted-Average Useful Life (in Years)</a>	5 years 7 months
<a href="#">Amount, acquired finite-lived</a>	6 days
Other Acquisition [Member]   Finite Lived Intangible Other [Member]	12

**Schedule Of Finite Lived And Indefinite Lived Intangible Assets Acquired Through Business Combinations [Line Items]**

Weighted-Average Useful Life (in Years)

7 years

Amount, acquired finite-lived

\$ 1

**Employee Benefit Plans  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Employee Service Share-based Compensation, Aggregate Disclosures \[Abstract\] Summary Of Share-Based Compensation Expense](#)

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Cost of sales - product	\$ 11	\$ 14	\$ 21	\$ 27
Cost of sales - service	36	40	71	77
Share-based compensation expense in cost of sales	47	54	92	104
Research and development	72	99	156	200
Sales and marketing	135	149	265	291
General and administrative	48	54	98	102
Restructuring and other charges	—	(2)	(3)	(2)
Share-based compensation expense in operating expenses	255	300	516	591
<b>Total share-based compensation expense</b>	<b>\$ 302</b>	<b>\$ 354</b>	<b>\$ 608</b>	<b>\$ 695</b>

[Schedule of Share-based Compensation, Stock Options, Activity \[Table Text Block\]](#)

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

	Share-Based Awards Available for Grant
BALANCE AT JULY 30, 2011	255
Restricted stock, stock units, and other share-based awards granted	(95)
Share-based awards canceled/forfeited/expired	64
Other	(6)
BALANCE AT JULY 28, 2012	218
Restricted stock, stock units, and other share-based awards granted	(78)
Share-based awards canceled/forfeited/expired	89
Other	(3)
BALANCE AT JANUARY 26, 2013	226

[Summary Of Restricted Stock And Stock Unit Activity](#)

A summary of the restricted stock and stock unit activity, which includes time-based and performance-based or market-based restricted stock units, is as follows (in millions, except per-share amounts):

	Restricted Stock/ Stock Units	Weighted-Average Grant Date Fair Value per Share	Aggregated Fair Market Value
UNVESTED BALANCE AT JULY 30, 2011	116	\$ 21.50	
Granted and assumed	65	17.45	
Vested	(35)	21.94	\$ 580

Canceled/forfeited	(18)	20.38	
UNVESTED BALANCE AT JULY 28, 2012	128	19.46	
Granted and assumed	55	17.35	
Vested	(33)	21.03	\$ 624
Canceled/forfeited	(5)	18.33	
UNVESTED BALANCE AT JANUARY 26, 2013	145	\$ 18.35	

[Valuation of RSU \[Table Text Block\]](#)

The valuation of RSUs is summarized as follows:

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Number of shares granted (in millions)	37	33	48	44
Weighted- average grant date fair value per share	\$ 17.07	\$ 17.88	\$ 17.20	\$ 17.34
Expected dividend yield	3.1%	1.3%	3.0%	1.3%

[Summary Of Stock Option Activity](#)

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

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 30, 2011	621	\$ 21.79
Assumed from acquisitions	1	2.08
Exercised	(66)	13.51
Canceled/forfeited/expired	(36)	23.40
BALANCE AT JULY 28, 2012	520	22.68
Assumed from acquisitions	7	0.92
Exercised	(26)	15.25
Canceled/forfeited/expired	(82)	21.32
BALANCE AT JANUARY 26, 2013	419	\$ 23.08

[Summary Of Significant Ranges Of Outstanding And Exercisable Stock Options](#)

The following table summarizes significant ranges of outstanding and exercisable stock options as of January 26, 2013 (in millions, except years and share prices):

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
\$ 0.01 – 15.00	11	5.80	\$ 4.83	\$ 181	7	\$ 7.20	\$ 91
15.01 – 18.00	69	1.66	17.79	232	69	17.79	231
18.01 – 20.00	86	0.86	19.17	170	86	19.17	170
20.01 – 25.00	129	2.48	22.77	7	128	22.77	8
25.01 – 35.00	124	3.62	30.69	—	123	30.71	—
Total	419	2.44	\$ 23.08	\$ 590	413	\$ 23.31	\$ 500

**Consolidated  
Comprehensive Income  
(USD \$)  
In Millions, unless otherwise  
specified**

**3 Months 6 Months  
Ended Ended  
Jan. Jan. Jan. Jan.  
26, 28, 26, 28,  
2013 2012 2013 2012**

**Statement of Other Comprehensive Income [Abstract]**

<u>Net Income (Loss) Attributable to Parent</u>	\$	\$	\$	\$
	3,143	2,182	5,235	3,959
<u>Change in net unrealized gains, net of tax benefit (expense) of \$(47) and \$(46) for the three and six months ended January 26, 2013, respectively, and \$2 and \$28 for the corresponding periods of fiscal 2012, respectively</u>	69	10	73	(43)
<u>Net gains reclassified into earnings, net of tax effects of \$5 and \$14 for the three and six months ended January 26, 2013, respectively, and \$14 and \$16 for the corresponding periods of fiscal 2012, respectively</u>	(9)	(24)	(26)	(30)
<u>Total available-for-sale investments</u>	60	(14)	47	(73)
<u>Change in unrealized gains and losses, net of tax expense of \$(1) for each of the three and six months ended January 26, 2013</u>	2	(44)	68	(94)
<u>Net (gains) losses reclassified into earnings</u>	(8)	26	(3)	26
<u>Total cash flow hedging instruments</u>	(6)	(18)	65	(68)
<u>Net change in cumulative translation adjustment and other, net of tax (expense) benefit of \$(5) and \$(15) for the three and six months ended January 26, 2013, respectively, and \$10 and \$31 for the corresponding periods of fiscal 2012, respectively</u>	6	(106)	120	(317)
<u>Other comprehensive income (loss)</u>	60	(138)	232	(458)
<u>Comprehensive income</u>	3,203	2,044	5,467	3,501
<u>Comprehensive loss attributable to noncontrolling interests</u>	5	7	5	14
<u>Comprehensive income attributable to Cisco Systems, Inc.</u>	\$	\$	\$	\$
	3,208	2,051	5,472	3,515



**Shareholders' Equity (Stock  
Repurchase Program)  
(Detail) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

**6 Months  
Ended**

**Jan. 26, 2013**

**Stock Repurchase Program [Roll Forward]**

<u>Cumulative shares repurchased, beginning balance</u>	3,740
<u>Shares Repurchased Retired During Period Shares</u>	40
<u>Cumulative shares repurchased, ending balance</u>	3,780
<u>Cumulative weighted-average price per share, beginning balance</u>	\$ 20.36
<u>Repurchase of common stock under the stock repurchase program, weighted -average price per share</u>	\$ 18.73
<u>Cumulative weighted-average price per share, ending balance</u>	\$ 20.34
<u>Cumulative amount repurchased, beginning balance</u>	\$ 76,133
<u>Repurchase of common stock under the stock repurchase program, amount</u>	753
<u>Cumulative amount repurchased, ending balance</u>	\$ 76,886

## Supplemental Information

**6 Months Ended  
Jan. 26, 2013**

### [Stockholders' Equity Note](#)

#### [\[Abstract\]](#)

#### [Treasury Stock \[Text Block\]](#)

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 26, 2013, the Company's Board of Directors had authorized an aggregate repurchase of up to \$82 billion of common stock under this program with no termination date. For additional information regarding stock repurchases, see Note 13 to the Consolidated Financial Statements. The stock repurchases since the inception of this program and the related impacts on Cisco shareholders' equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Total Cisco Shareholders' Equity
Repurchases of common stock under the repurchase program	3,780	\$ 17,339	\$ 59,547	\$ 76,886

**Financing Receivables And  
Guarantees (Schedule Of  
Financing Receivables)  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, 2013 Jul. 28, 2012**

**Accounts, Notes, Loans and Financing Receivable [Line Items]**

<u>Notes, Loans and Financing Receivable, Net, Noncurrent</u>	\$ 3,837	\$ 3,585
Financing Receivable [Member]		

**Accounts, Notes, Loans and Financing Receivable [Line Items]**

<u>Capital Leases, Future Minimum Payments Receivable</u>	8,365	7,876
<u>Unearned income</u>	(273)	(250)
<u>Financing Receivable, Allowance for Credit Losses</u>	(361)	(380)
<u>Financing Receivable, Recorded Investment, Current</u>	3,894	3,661
<u>Notes, Loans and Financing Receivable, Net, Noncurrent</u>	3,837	3,585
<u>Financing Receivable</u>	7,731	7,246
Lease Receivables [Member]		

**Accounts, Notes, Loans and Financing Receivable [Line Items]**

<u>Capital Leases, Future Minimum Payments Receivable</u>	3,717	3,429
<u>Unearned income</u>	(273)	(250)
<u>Financing Receivable, Allowance for Credit Losses</u>	(247)	(247)
<u>Financing Receivable, Recorded Investment, Current</u>	1,349	1,200
<u>Notes, Loans and Financing Receivable, Net, Noncurrent</u>	1,848	1,732
<u>Financing Receivable</u>	3,197	2,932
Loan Receivables [Member]		

**Accounts, Notes, Loans and Financing Receivable [Line Items]**

<u>Capital Leases, Future Minimum Payments Receivable</u>	1,785	1,796
<u>Unearned income</u>	0	0
<u>Financing Receivable, Allowance for Credit Losses</u>	(101)	(122)
<u>Financing Receivable, Recorded Investment, Current</u>	960	968
<u>Notes, Loans and Financing Receivable, Net, Noncurrent</u>	724	706
<u>Financing Receivable</u>	1,684	1,674
Financed Service Contracts And Other [Member]		

**Accounts, Notes, Loans and Financing Receivable [Line Items]**

<u>Capital Leases, Future Minimum Payments Receivable</u>	2,863	2,651
<u>Unearned income</u>	0	0
<u>Financing Receivable, Allowance for Credit Losses</u>	(13)	(11)
<u>Financing Receivable, Recorded Investment, Current</u>	1,585	1,493
<u>Notes, Loans and Financing Receivable, Net, Noncurrent</u>	1,265	1,147
<u>Financing Receivable</u>	\$ 2,850	\$ 2,640

**Derivative Instruments  
(Effect Of Derivative  
Instruments Not Designated  
As Fair Value Hedges On  
Consolidated Statement Of  
Operations Summary)  
(Details) (Derivatives Not  
Designated As Hedging  
Instruments [Member], USD  
\$)  
In Millions, unless otherwise  
specified**

	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in income</u></a>	\$ (19)	\$ (93)	\$ 57	\$ (163)
Foreign Exchange Contract [Member]   Other Income [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in income</u></a>	(41)	(88)	12	(145)
Total Return Swaps-Deferred Compensation [Member]   Cost of Sales [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in income</u></a>	0	3	0	3
Total Return Swaps-Deferred Compensation [Member]   Operating Expenses [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in income</u></a>	19	10	33	(10)
Equity Derivatives [Member]   Other Income [Member]				
<a href="#"><u>Derivative [Line Items]</u></a>				
<a href="#"><u>Gains (losses) recognized in income</u></a>	\$ 3	\$ (18)	\$ 12	\$ (11)

**Investments (Maturities Of  
Fixed Income Securities)  
(Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**Jan. 26, 2013 Jul. 28, 2012**

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	\$ 38,757	\$ 38,263
<u>Available-for-sale Securities, Fair Value Disclosure</u>	39,529	38,917

Fixed Income Securities Matures Within One Year [Member]

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	16,215	
<u>Available-for-sale Securities, Fair Value Disclosure</u>	16,234	

Fixed Income Securities Maturities Between One And Two Years [Member]

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	10,710	
<u>Available-for-sale Securities, Fair Value Disclosure</u>	10,752	

Fixed Income Securities Maturities Between Two And Five Years [Member]

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	10,230	
<u>Available-for-sale Securities, Fair Value Disclosure</u>	10,310	

Fixed Income Securities Maturities Beyond Five Years [Member]

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	118	
<u>Available-for-sale Securities, Fair Value Disclosure</u>	125	

Fixed Income Investments [Member]

**Schedule of Investments [Line Items]**

<u>Available-for-sale Securities, Amortized Cost Basis</u>	37,273	37,156
<u>Available-for-sale Securities, Fair Value Disclosure</u>	\$ 37,421	\$ 37,297

## Net Income Per Share

**6 Months Ended  
Jan. 26, 2013**

[Earnings Per Share](#)

[\[Abstract\]](#)

[Net Income Per Share](#)

### 17. Net Income per Share

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

	Three Months Ended		Six Months Ended	
	January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Net income	\$ 3,143	\$ 2,182	\$ 5,235	\$ 3,959
Weighted-average shares - basic	5,318	5,368	5,310	5,381
Effect of dilutive potential common shares	39	33	34	23
Weighted-average shares - diluted	5,357	5,401	5,344	5,404
Net income per share - basic	\$ 0.59	\$ 0.41	\$ 0.99	\$ 0.74
Net income per share - diluted	\$ 0.59	\$ 0.40	\$ 0.98	\$ 0.73
Antidilutive employee share-based awards, excluded	324	532	519	692

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

**Borrowings - Additional  
Information (Detail) (USD \$)**

**6 Months Ended  
Jan. 26, 2013**

**12 Months  
Ended  
Jul. 30, 2011 Jul. 28, 2012**

**Subordinated Borrowing**

**[Line Items]**

Credit Facility Interest Rate either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America's "prime rate" as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on the Company's senior debt credit ratings

ST debt financing program-  
Commercial paper announced  
value \$ 3,000,000,000

Commercial Paper 0 0

Notional amount of interest  
rate derivatives 4,250,000,000 4,250,000,000

Senior Notes Issued 2006 and  
2011 [Member]

**Subordinated Borrowing**

**[Line Items]**

Notional amount of interest  
rate derivatives 4,250,000,000

Unsecured Revolving Credit  
Facility [Member]

**Subordinated Borrowing**

**[Line Items]**

Unsecured Revolving Credit  
Facility 3,000,000,000

Unsecured revolving credit  
facility maturity date Feb. 17, 2017

Interest Rate- Federal Funds  
rate plus 0.5% 0.50%

Interest Rate- One-month  
LIBOR plus 1.00% 1.00%

Available increases under the  
credit facility \$ 2,000,000,000

Increase to maximum  
borrowing capacity- maturity  
date Feb. 17, 2019

**Derivative Instruments  
(Tables)**

**6 Months Ended  
Jan. 26, 2013**

[Derivative Instruments and  
Hedging Activities](#)

[Disclosure \[Abstract\]](#)

[Derivatives Recorded At Fair  
Value](#)

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

	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
	Balance Sheet Line Item	January 26, 2013	July 28, 2012	Balance Sheet Line Item	January 26, 2013	July 28, 2012
Derivatives designated as hedging instruments:						
Foreign currency derivatives	Other current assets	\$ 34	\$ 24	Other current liabilities	\$ 2	\$ 26
Interest rate derivatives	Other assets	194	223	Other long-term liabilities	—	—
Equity derivatives	Other current assets	—	—	Other current liabilities	43	4
<b>Total</b>		<b>228</b>	<b>247</b>		<b>45</b>	<b>30</b>
Derivatives not designated as hedging instruments:						
Foreign currency derivatives	Other current assets	16	16	Other current liabilities	12	12
Equity derivatives	Other assets	—	1	Other long-term liabilities	—	—
<b>Total</b>		<b>16</b>	<b>17</b>		<b>12</b>	<b>12</b>
<b>Total</b>		<b>\$ 244</b>	<b>\$ 264</b>		<b>\$ 57</b>	<b>\$ 42</b>

[Gains And Losses On  
Derivatives Designated As  
Cash Flow Hedges](#)

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

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		
	January 26, 2013	January 28, 2012	Line Item in Statements of Operations	January 26, 2013	January 28, 2012
Derivatives designated as cash flow hedging instruments:					
Foreign currency derivatives	\$ 3	\$ (44)	Operating expenses	\$ 6	\$ (22)
			Cost of sales - service	2	(4)
<b>Total</b>	<b>\$ 3</b>	<b>\$ (44)</b>		<b>\$ 8</b>	<b>\$ (26)</b>
Derivatives designated as net investment hedging instruments:					
Foreign currency derivatives	\$ —	\$ (2)	Other income (loss), net	\$ —	\$ —

	GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)		GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)		
	January 26, 2013	January 28, 2012	Line Item in Statements of Operations	January 26, 2013	January 28, 2012
Derivatives designated as cash flow hedging instruments:					
Foreign currency derivatives	\$ 69	\$ (94)	Operating expenses	\$ 2	\$ (22)
			Cost of sales - service	1	(4)
<b>Total</b>	<b>\$ 69</b>	<b>\$ (94)</b>		<b>\$ 3</b>	<b>\$ (26)</b>
Derivatives designated as net investment hedging instruments:					
Foreign currency derivatives	\$ (24)	\$ (6)	Other income (loss), net	\$ —	\$ —

[Schedule Of Derivative Fair  
Value Hedge Instruments Gain  
Loss In Statement Of Financial  
Performance \[Text Block\]](#)

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

GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE THREE MONTHS ENDED	GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE THREE MONTHS ENDED
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Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	January 26, 2013		January 28, 2012	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (39)	\$ —	\$ 39	\$ —
Interest rate derivatives	Interest expense	(11)	41	11	(42)
<b>Total</b>		<b>\$ (50)</b>	<b>\$ 41</b>	<b>\$ 50</b>	<b>\$ (42)</b>

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE SIX MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Equity derivatives	Other income (loss), net	\$ (42)	\$ —	\$ 42	\$ —
Interest rate derivatives	Interest expense	(29)	76	29	(78)
<b>Total</b>		<b>\$ (71)</b>	<b>\$ 76</b>	<b>\$ 71</b>	<b>\$ (78)</b>

[Effect Of Derivative Instruments Not Designated As Fair Value Hedges On Consolidated Statement Of Operations Summary](#)

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

Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) FOR THE THREE MONTHS ENDED		GAINS (LOSSES) FOR THE SIX MONTHS ENDED	
		January 26, 2013	January 28, 2012	January 26, 2013	January 28, 2012
Foreign currency derivatives	Other income (loss), net	\$ (41)	\$ (88)	\$ 12	\$ (145)
Total return swaps - deferred compensation	Cost of sales	—	3	—	3
	Operating expenses	19	10	33	(10)
Equity derivatives	Other income (loss), net	3	(18)	12	(11)
<b>Total</b>		<b>\$ (19)</b>	<b>\$ (93)</b>	<b>\$ 57</b>	<b>\$ (163)</b>

[Schedule Of Notional Amounts Of Derivatives Outstanding](#)

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

	January 26, 2013	July 28, 2012
Derivatives designated as hedging instruments:		
Foreign currency derivatives - cash flow hedges	\$ 1,646	\$ 2,910
Interest rate derivatives	4,250	4,250
Net investment hedging instruments	325	468
Equity derivatives	629	272
Derivatives not designated as hedging instruments:		
Foreign currency derivatives	4,231	6,241
Total return swaps-deferred compensation	324	269
<b>Total</b>	<b>\$ 11,405</b>	<b>\$ 14,410</b>

## Borrowings

**6 Months Ended  
Jan. 26, 2013**

[Debt Disclosure \[Abstract\]](#)  
[Borrowings](#)

### 10. Borrowings

#### (a) Short-Term Debt

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

	January 26, 2013		July 28, 2012	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Other notes and borrowings	\$ 37	9.60%	\$ 31	6.72%

In fiscal 2011, the Company established a short-term debt financing program of up to \$3.0 billion through the issuance of commercial paper notes. The Company uses the proceeds from the issuance of commercial paper notes for general corporate purposes. The Company had no commercial paper notes outstanding as of each of January 26, 2013 and July 28, 2012.

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

As of January 26, 2013, the estimated fair value of the short-term debt approximates its carrying value due to the short maturities.

#### (b) Long-Term Debt

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

	January 26, 2013		July 28, 2012	
	Amount	Effective Rate	Amount	Effective Rate
<b>Senior Notes:</b>				
Floating-rate notes, due 2014	\$ 1,250	0.57%	\$ 1,250	0.81%
1.625% fixed-rate notes, due 2014	2,000	0.68%	2,000	0.84%
2.90% fixed-rate notes, due 2014	500	3.11%	500	3.11%
5.50% fixed-rate notes, due 2016	3,000	3.08%	3,000	3.16%
3.15% fixed-rate notes, due 2017	750	0.87%	750	1.03%
4.95% fixed-rate notes, due 2019	2,000	5.08%	2,000	5.08%
4.45% fixed-rate notes, due 2020	2,500	4.50%	2,500	4.50%
5.90% fixed-rate notes, due 2039	2,000	6.11%	2,000	6.11%
5.50% fixed-rate notes, due 2040	2,000	5.67%	2,000	5.67%
Total	16,000		16,000	
Other long-term debt	10	0.19%	10	0.19%
Unaccreted discount	(67)		(70)	
Hedge accounting fair value adjustments	311		357	
Total long-term debt	\$ 16,254		\$ 16,297	

To achieve its interest rate risk management objectives, the Company entered into interest rate swaps with an aggregate notional amount of \$4.25 billion designated as fair value hedges of certain of its fixed-rate senior notes. In effect, these swaps convert the fixed interest rates of the

fixed-rate notes to floating interest rates based on the London InterBank Offered Rate ("LIBOR"). The gains and losses related to changes in the fair value of the interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. See Note 11 to the Consolidated Financial Statements.

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

The senior notes rank at par with the commercial paper notes that may be issued in the future pursuant to the Company's short-term debt financing program, as discussed above under "Short-Term Debt." As of January 26, 2013, the Company was in compliance with all debt covenants.

Future principal payments for long-term debt as of January 26, 2013 are summarized as follows (in millions):

Fiscal Year	Amount
2013 (remaining six months)	\$ —
2014	3,260
2015	500
2016	3,000
2017	750
Thereafter	8,500
Total	<u>\$ 16,010</u>

### (c) Credit Facility

On February 17, 2012, the Company entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America's "prime rate" as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on the Company's senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc. The credit agreement requires the Company to comply with certain covenants, including that it maintains an interest coverage ratio as defined in the agreement. As of January 26, 2013, the Company was in compliance with all such required covenants, and the Company had not borrowed any funds under the credit facility.

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

<b>Segment Information And Major Customers (Net Sales For Groups Of Similar Products And Services) (Detail) (USD \$) In Millions, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>	<b>Jan. 26, 2013</b>	<b>Jan. 28, 2012</b>
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Service [Member]	\$ 12,098	\$ 11,527	\$ 23,974	\$ 22,783
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Switching [Member]	2,661	2,409	5,240	4,713
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Next Generation Networks [Member]	3,724	3,621	7,340	7,308
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Service Provider Video [Member]	1,946	2,068	3,998	4,162
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Collaboration [Member]	1,220	1,014	2,368	1,897
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Data Center [Member]	945	1,060	1,965	2,168
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Wireless [Member]	548	333	965	592
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Security [Member]	520	409	1,006	762
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Other Products [Member]	336	333	674	652
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a> Sales Revenue, Product Line [Member]   Product [Member]	198	280	418	529
<a href="#">Segment Reporting, Revenue Reconciling Item [Line Items]</a> <a href="#">Revenues</a>	\$ 9,437	\$ 9,118	\$ 18,734	\$ 18,070