

CISCO SYSTEMS, INC.
Form 10-Q
May 23, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

170 West Tasman Drive

San Jose, California 95134

(Address of principal executive office and zip code)

77-0059951
(I.R.S. Employer

Identification Number)

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(408) 526-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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
(Do not check if a smaller

Smaller reporting company

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 May 18, 2012: 5,356,878,940

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Cisco Systems, Inc.

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

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****CISCO SYSTEMS, INC.****CONSOLIDATED BALANCE SHEETS****(in millions, except par value)****(Unaudited)**

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

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Total liabilities	39,776	39,836
Commitments and contingencies (Note 12)		
Equity:		
Cisco shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding		
Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 5,383 and 5,435 shares issued and outstanding at April 28, 2012 and July 30, 2011, respectively	39,510	38,648
Retained earnings	10,869	7,284
Accumulated other comprehensive income	978	1,294
Total Cisco shareholders' equity	51,357	47,226
Noncontrolling interests	21	33
Total equity	51,378	47,259
TOTAL LIABILITIES AND EQUITY	\$ 91,154	\$ 87,095

See Notes to Consolidated Financial Statements.

Table of Contents**CISCO SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per-share amounts)

(Unaudited)

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

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Shares used in per-share calculation:

Basic	5,388	5,508	5,383	5,545
Diluted	5,456	5,537	5,418	5,596
Cash dividends declared per common share	\$ 0.08	\$ 0.06	\$ 0.20	\$ 0.06

See Notes to Consolidated Financial Statements.

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

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

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

See Notes to Consolidated Financial Statements.

Table of Contents**CISCO SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF EQUITY**

(in millions)

(Unaudited)

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

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

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

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

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

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

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

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

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

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

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CISCO SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Summary of Significant Accounting Policies

New Accounting Update Recently Adopted

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

Recent Accounting Standards or Updates Not Yet Effective

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

In August 2011, the FASB approved a revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity

DTH="88%">By: /s/ Barbara E. Campbell Barbara E. Campbell TreasurerDate: May 25, 2012