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CISCO SYSTEMS, INC.

FORM 10-Q
(Quarterly Report)

Filed 11/22/13 for the Period Ending 10/26/13

Address	170 WEST TASMAN DR
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Telephone	4085264000
CIK	0000858877
Symbol	CSCO
SIC Code	3576 - Computer Communications Equipment
Industry	Communications Equipment
Sector	Technology
Fiscal Year	07/28

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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 October 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

CISCO SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

California	**77-0059951**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

170 West Tasman Drive
San Jose, California 95134
(Address of principal executive office and zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 reporting company)	☐	Smaller reporting company	☐

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

Number of shares of the registrant's common stock outstanding as of November 15, 2013 : 5,346,617,505

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

INDEX

		Page
Part I.	Financial Information	3
Item 1.	Financial Statements (Unaudited)	3
	Consolidated Balance Sheets at October 26, 2013 and July 27, 201 3	3
	Consolidated Statements of Operations for the Three Months Ended October 26, 2013 and October 27, 2012	4
	Consolidated Statements of Comprehensive Income for the Three Months Ended October 26, 2013 and October 27, 2012	5
	Consolidated Statements of Cash Flows for the Three Months Ended October 26, 2013 and October 27, 2012	6
	Consolidated Statements of Equity for the Three Months Ended October 26, 2013 and October 27, 2012	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	67
Item 4.	Controls and Procedures	69
Part II.	Other Information	70
Item 1.	Legal Proceedings	70
Item 1A.	Risk Factors	71
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	87
Item 3.	Defaults Upon Senior Securities	88
Item 4.	Mine Safety Disclosures	88
Item 5.	Other Information	88
Item 6.	Exhibits	88
	Signature	89

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	October 26, 2013	July 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,254	$ 7,925
Investments	42,947	42,685
Accounts receivable, net of allowance for doubtful accounts of $245 at October 26, 2013 and $228 at July 27, 2013	5,188	5,470
Inventories	1,466	1,476
Financing receivables, net	4,132	4,037
Deferred tax assets	2,333	2,616
Other current assets	1,476	1,312
Total current assets	62,796	65,521
Property and equipment, net	3,273	3,322
Financing receivables, net	3,893	3,911
Goodwill	23,804	21,919
Purchased intangible assets, net	3,835	3,403
Other assets	3,140	3,115
TOTAL ASSETS	$ 100,741	$ 101,191
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 3,279	$ 3,283
Accounts payable	1,025	1,029
Income taxes payable	—	192
Accrued compensation	2,771	3,182
Deferred revenue	9,212	9,262
Other current liabilities	5,441	5,048
Total current liabilities	21,728	21,996
Long-term debt	12,947	12,928
Income taxes payable	1,575	1,748
Deferred revenue	3,995	4,161
Other long-term liabilities	1,587	1,230
Total liabilities	41,832	42,063
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; 5,351 and 5,389 shares issued and outstanding at October 26, 2013 and July 27, 2013, respectively	42,166	42,297
Retained earnings	15,959	16,215
Accumulated other comprehensive income	772	608
Total Cisco shareholders' equity	58,897	59,120
Noncontrolling interests	12	8
Total equity	58,909	59,128
TOTAL LIABILITIES AND EQUITY	$ 100,741	$ 101,191

See Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	October 26, 2013	October 27, 2012
REVENUE:		
Product	$ 9,397	$ 9,297
Service	2,688	2,579
Total revenue	12,085	11,876
COST OF SALES:		
Product	3,747	3,748
Service	931	889
Total cost of sales	4,678	4,637
GROSS MARGIN	7,407	7,239
OPERATING EXPENSES:		
Research and development	1,724	1,431
Sales and marketing	2,411	2,416
General and administrative	515	560
Amortization of purchased intangible assets	65	122
Restructuring and other charges	237	59
Total operating expenses	4,952	4,588
OPERATING INCOME	2,455	2,651
Interest income	169	161
Interest expense	(140)	(148)
Other income (loss), net	56	(33)
Interest and other income (loss), net	85	(20)
INCOME BEFORE PROVISION FOR INCOME TAXES	2,540	2,631
Provision for income taxes	544	539
NET INCOME	$ 1,996	$ 2,092
Net income per share:		
Basic	$ 0.37	$ 0.39
Diluted	$ 0.37	$ 0.39
Shares used in per-share calculation:		
Basic	5,378	5,301
Diluted	5,430	5,334
Cash dividends declared per common share	$ 0.17	$ 0.14

See Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	October 26, 2013	October 27, 2012
Net income	$ 1,996	$ 2,092
Available-for-sale investments:		
Change in net unrealized gains, net of tax benefit (expense) of $(53) and $1 for the three months ended October 26, 2013 and October 27, 2012, respectively	121	4
Net gains reclassified into earnings, net of tax expense of $31 and $10 for the three months ended October 26, 2013 and October 27, 2012, respectively	(52)	(17)
	69	(13)
Cash flow hedging instruments:		
Change in unrealized gains and losses, net of tax expense of $3 and $0 for the three months ended October 26, 2013 and October 27, 2012, respectively	35	66
Net (gains) losses reclassified into earnings	(9)	5
	26	71
Net change in cumulative translation adjustment and other, net of tax expense of $3 and $10 for the three months ended October 26, 2013 and October 27, 2012, respectively	73	114
Other comprehensive income	168	172
Comprehensive income	2,164	2,264
Comprehensive income attributable to noncontrolling interests	(4)	—
Comprehensive income attributable to Cisco Systems, Inc.	$ 2,160	$ 2,264

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended	
	October 26, 2013	October 27, 2012
Cash flows from operating activities:		
Net income	$ 1,996	$ 2,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and other	591	615
Share-based compensation expense	309	306
Provision for receivables	23	7
Deferred income taxes	130	135
Excess tax benefits from share-based compensation	(55)	(15)
(Gains) losses on investments and other, net	(108)	12
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	361	615
Inventories	22	42
Financing receivables	(37)	(110)
Other assets	28	99
Accounts payable	(29)	(19)
Income taxes, net	(389)	(372)
Accrued compensation	(460)	(359)
Deferred revenue	(307)	(295)
Other liabilities	574	(288)
Net cash provided by operating activities	2,649	2,465
Cash flows from investing activities:		
Purchases of investments	(8,835)	(8,213)
Proceeds from sales of investments	4,733	2,447
Proceeds from maturities of investments	4,058	4,388
Acquisition of property and equipment	(315)	(265)
Acquisition of businesses, net of cash and cash equivalents acquired	(2,447)	(4,912)
Purchases of investments in privately held companies	(134)	(9)
Return of investments in privately held companies	33	12
Proceeds from sales of property and equipment	156	24
Other	(4)	(2)
Net cash used in investing activities	(2,755)	(6,530)
Cash flows from financing activities:		
Issuances of common stock	444	117
Repurchases of common stock - repurchase program	(1,898)	(183)
Shares repurchased for tax withholdings on vesting of restricted stock units	(286)	(203)
Short-term borrowings, maturities less than 90 days, net	(2)	23
Issuances of debt, maturities greater than 90 days	4	—
Excess tax benefits from share-based compensation	55	15
Dividends paid	(914)	(744)
Other	32	14
Net cash used in financing activities	(2,565)	(961)
Net decrease in cash and cash equivalents	(2,671)	(5,026)
Cash and cash equivalents, beginning of period	7,925	9,799

Cash and cash equivalents, end of period	$	5,254	$	4,773
Supplemental cash flow information:				
Cash paid for interest	$	221	$	221
Cash paid for income taxes, net	$	803	$	776

See Notes to Consolidated Financial Statements.

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

Three Months Ended October 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 27, 2013	5,389	$ 42,297	$ 16,215	$ 608	$ 59,120	$ 8	$ 59,128
Net income			1,996		1,996		1,996
Other comprehensive income				164	164	4	168
Issuance of common stock	58	444			444		444
Repurchase of common stock	(84)	(662)	(1,338)		(2,000)		(2,000)
Shares repurchased for tax withholdings on vesting of restricted stock units	(12)	(286)			(286)		(286)
Cash dividends declared ($0.17 per common share)			(914)		(914)		(914)
Tax effects from employee stock incentive plans		35			35		35
Share-based compensation expense		309			309		309
Purchase acquisitions and other		29			29		29
BALANCE AT OCTOBER 26, 2013	5,351	$ 42,166	$ 15,959	$ 772	$ 58,897	$ 12	$ 58,909

Three Months Ended October 27, 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 28, 2012	5,298	$ 39,271	$ 11,354	$ 661	$ 51,286	$ 15	$ 51,301
Net income			2,092		2,092		2,092
Other comprehensive income				172	172	—	172
Issuance of common stock	39	117			117		117
Repurchase of common stock	(15)	(114)	(139)		(253)		(253)
Shares repurchased for tax withholdings on vesting of restricted stock units	(11)	(203)			(203)		(203)
Cash dividends declared ($0.14 per common share)			(744)		(744)		(744)
Tax effects from employee stock incentive plans		(87)			(87)		(87)
Share-based compensation expense		306			306		306
BALANCE AT OCTOBER 27, 2012	5,311	$ 39,290	$ 12,563	$ 833	$ 52,686	$ 15	$ 52,701

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of October 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.

In November 2013, the Company's Board of Directors authorized up to $15 billion in additional repurchases of common stock under this program, with no termination date. 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	3,952	$ 18,664	$ 62,242	$ 80,906

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 2014 and fiscal 2013 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 October 26, 2013 and for the three months ended October 26, 2013 and October 27, 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 27, 2013 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 27, 2013.

The Company consolidates its investments 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 October 26, 2013 and the results of operations, cash flows and equity for the three months ended October 26, 2013 and October 27, 2012 , as applicable, have been made. The results of operations for the three months ended October 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 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 became effective for the Company in the first quarter of fiscal 2014. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 11.

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 became effective for the Company beginning in the first quarter of fiscal 2014, and its adoption did not have any 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 became effective for the Company in the first quarter of fiscal 2014. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 15.

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

(b) Recent Accounting Standards or Updates Not Yet Effective

In March 2013, the FASB issued an accounting standard update requiring an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2015. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

In July 2013, the FASB issued an accounting standard update that provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. Under the new standard update, unrecognized tax benefit, or a portion of an unrecognized tax benefit, is to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward. This accounting standard update will be effective for the Company beginning in the first quarter fiscal 2015 and applied prospectively with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

3. Business Combinations

(a) Acquisition Summary

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

	Purchase Consideration	Net Tangible Assets Acquired (Liabilities Assumed)	Purchased Intangible Assets	Goodwill
Sourcefire, Inc.	$ 2,449	$ 81	$ 577	$ 1,791
Composite Software, Inc.	160	(10)	75	95
Total	$ 2,609	$ 71	$ 652	$ 1,886

On October 7, 2013, the Company completed its acquisition of Sourcefire, Inc. (“Sourcefire”), a leader in intelligent cybersecurity solutions. Sourcefire delivers innovative, highly automated security through continuous awareness, threat detection and protection across its portfolio, including next-generation intrusion prevention systems, next-generation firewalls, and advanced malware protection. With the Sourcefire acquisition, the Company aims to accelerate its security strategy of defending, discovering, and remediating advanced threats to provide continuous security solutions to the Company’s customers in more places across the network. Product revenue from the Sourcefire acquisition has been included in the Company's Security product category.

On July 29, 2013, the Company completed its acquisition of privately held Composite Software, Inc. (“Composite Software”), a provider of data virtualization software and services. Composite Software provides technology that connects many types of data from across the network and makes it appear as if the data is in one place. With its acquisition of Composite Software, the Company intends to extend its next-generation services platform by connecting data and infrastructure. Revenue from the Composite Software acquisition has been included in the Company's Services category.

The total purchase consideration related to the Company’s business combinations completed during the three months ended October 26, 2013 consisted of cash consideration and vested share-based awards assumed. The total cash and cash equivalents acquired from these business combinations was approximately $132 million . Total transaction costs related to the Company’s business combination activities were $6 million for each of the three months ended October 26, 2013 and October 27, 2012 . These transaction costs were expensed as incurred in general and administrative (“G&A”) expenses in the Consolidated Statements of Operations.

The Company’s purchase price allocation for business combinations completed during recent periods 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.

Table of Contents

The goodwill generated from the Company's business combinations completed during the three months ended October 26, 2013 is primarily related to expected synergies. The goodwill is generally not deductible for 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 three months ended October 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.

(b) Acquisition of WhipTail Technologies, Inc.

On October 28, 2013 the Company completed its acquisition of privately held WhipTail Technologies, Inc. ("WhipTail"). The Company agreed to pay approximately $0.4 billion in cash and retention-based incentives to acquire WhipTail. WhipTail is a leader in high performance, scalable solid state memory systems that enable organizations to simplify data center and virtualized environments and process more data in less time. With its WhipTail acquisition, the Company aims to strengthen its Unified Computing System (UCS) strategy and enhance application performance by integrating scalable solid state memory into the UCS's fabric computing architecture. Revenue from the WhipTail acquisition will be included in the Company's Data Center product category. The Company expects that most of the purchase price will be allocated to 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 three months ended October 26, 2013 (in millions):

	Balance at July 27, 2013	Acquisitions	Other	Balance at October 26, 2013
Americas	$ 13,800	$ 1,012	$ —	$ 14,812
EMEA	5,037	575	(1)	5,611
APJC	3,082	299	—	3,381
Total	$ 21,919	$ 1,886	$ (1)	$ 23,804

(b) Purchased Intangible Assets

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

	FINITE LIVES						INDEFINITE LIVES	
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D	TOTAL
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Amount	Amount
Sourcefire, Inc.	7.0	$ 400	5.0	$ 129	3.0	$ 26	$ 22	$ 577
Composite Software, Inc.	6.0	60	3.9	14	0.0	—	1	75
Total		$ 460		$ 143		$ 26	$ 23	$ 652

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

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

October 26, 2013	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$ 4,034	$ (1,529)	$ 2,505
Customer relationships	1,698	(516)	1,182
Other	55	(11)	44
Total purchased intangible assets with finite lives	5,787	(2,056)	3,731
In-process research and development, with indefinite lives	104	—	104
Total	$ 5,891	$ (2,056)	$ 3,835

July 27, 2013	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$ 3,563	$ (1,366)	$ 2,197
Customer relationships	1,566	(466)	1,100
Other	30	(10)	20
Total purchased intangible assets with finite lives	5,159	(1,842)	3,317
In-process research and development, with indefinite lives	86	—	86
Total	$ 5,245	$ (1,842)	$ 3,403

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	
	October 26, 2013	October 27, 2012
Amortization of purchased intangible assets:		
Cost of sales	$ 174	$ 143
Operating expenses	65	122
Total	$ 239	$ 265

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 October 26, 2013 is as follows (in millions):

Fiscal Year	Amount
2014 (remaining nine months)	$ 764
2015	934
2016	704
2017	530
2018	380
Thereafter	419
Total	$ 3,731

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

5. Restructuring and Other Charges

August Fiscal 2014 Plan

In August 2013 the Company announced a workforce reduction plan. The Company is rebalancing its resources with a workforce reduction plan that will impact approximately 4,000 employees, or 5% , of the Company's global workforce. This workforce reduction plan is designed to enable the Company to rebalance its workforce in order to reinvest in key growth areas such as the cloud, data center, mobility, services, software and security and to drive operational efficiencies. As the Company intends to reinvest in the above areas, it does not expect significant overall cost savings as a result of this rebalancing of its resources.

In connection with this restructuring action, the Company incurred cumulative charges of $237 million for the first quarter of fiscal 2014. The Company expects total pre-tax charges pursuant to these restructuring actions of approximately $550 million and it expects the remaining charges to be incurred though the end of fiscal 2014.

The following table summarizes the activities related to the restructuring and other charges pursuant to the August Fiscal 2014 Plan (in millions):

August Fiscal 2014 Plan	Employee Severance	Other	Total
Gross charges in fiscal 2014	$ 240	$ (3)	$ 237
Cash payments	(70)	—	(70)
Non-cash items	—	3	3
Liability as of October 26, 2013	$ 170	$ —	$ 170

Fiscal 2011 Plans

The Fiscal 2011 Plans consist primarily of the realignment and restructuring of the Company's business announced in July 2011 and of certain consumer product lines as announced during April 2011. The Company has completed the Fiscal 2011 Plans and does not expect any remaining charges related to these actions. The Company incurred cumulative charges of approximately $1.1 billion in connection with these plans. There were no charges incurred during the three months ended October 26, 2013 in connection with these plans. For the three months ended October 27, 2012 , such charges were $59 million . The remaining liability balance as of October 26, 2013 was $22 million inclusive of severance and non-severance activities.

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):

	October 26, 2013	July 27, 2013
Inventories:		
Raw materials	$ 80	$ 105
Work in process	7	24
Finished goods:		
Distributor inventory and deferred cost of sales	619	572
Manufactured finished goods	464	480
Total finished goods	1,083	1,052
Service-related spares	257	256
Demonstration systems	39	39
Total	$ 1,466	$ 1,476
Property and equipment, net:		
Land, buildings, and building and leasehold improvements	$ 4,340	$ 4,426
Computer equipment and related software	1,428	1,416
Production, engineering, and other equipment	5,767	5,721
Operating lease assets [1]	326	326
Furniture and fixtures	498	497
	12,359	12,386
Less accumulated depreciation and amortization [1]	(9,086)	(9,064)
Total	$ 3,273	$ 3,322

(1) Accumulated depreciation related to operating lease assets was $207 and $203 as of October 26, 2013 and July 27, 2013, respectively.

	October 26, 2013	July 27, 2013
Other assets:		
Deferred tax assets	$ 1,496	$ 1,539
Investments in privately held companies	884	833
Other	760	743
Total	$ 3,140	$ 3,115
Deferred revenue:		
Service	$ 8,896	$ 9,403
Product:		
Unrecognized revenue on product shipments and other deferred revenue	3,628	3,340
Cash receipts related to unrecognized revenue from two-tier distributors	683	680
Total product deferred revenue	4,311	4,020
Total	$ 13,207	$ 13,423
Reported as:		
Current	$ 9,212	$ 9,262
Noncurrent	3,995	4,161
Total	$ 13,207	$ 13,423

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):

October 26, 2013	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total Financing Receivables
Gross	$ 3,813	$ 1,808	$ 3,018	$ 8,639
Unearned income	(264)	—	—	(264)
Allowance for credit loss	(237)	(93)	(20)	(350)
Total, net	$ 3,312	$ 1,715	$ 2,998	$ 8,025
Reported as:				
Current	$ 1,463	$ 951	$ 1,718	$ 4,132
Noncurrent	1,849	764	1,280	3,893
Total, net	$ 3,312	$ 1,715	$ 2,998	$ 8,025

July 27, 2013	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total Financing Receivables
Gross	$ 3,780	$ 1,649	$ 3,136	$ 8,565
Unearned income	(273)	—	—	(273)
Allowance for credit loss	(238)	(86)	(20)	(344)
Total, net	$ 3,269	$ 1,563	$ 3,116	$ 7,948
Reported as:				
Current	$ 1,418	$ 898	$ 1,721	$ 4,037
Noncurrent	1,851	665	1,395	3,911
Total, net	$ 3,269	$ 1,563	$ 3,116	$ 7,948

As of October 26, 2013 and July 27, 2013, the deferred service revenue related to the financed service contracts and other was $1,881 million and $2,036 million , respectively.

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

Fiscal Year	Amount
2014 (remaining nine months)	$ 1,338
2015	1,251
2016	746
2017	364
2018	109
Thereafter	5
Total	$ 3,813

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 October 26, 2013 and July 27, 2013 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING					
October 26, 2013	1 to 4	5 to 6	7 and Higher	Total	Residual Value	Gross Receivables, Net of Unearned Income
Lease receivables	$ 1,695	$ 1,498	$ 104	$ 3,297	$ 252	$ 3,549
Loan receivables	981	777	50	1,808	—	1,808
Financed service contracts and other	1,792	1,110	116	3,018	—	3,018
Total	$ 4,468	$ 3,385	$ 270	$ 8,123	$ 252	$ 8,375

	INTERNAL CREDIT RISK RATING					
July 27, 2013	1 to 4	5 to 6	7 and Higher	Total	Residual Value	Gross Receivables, Net of Unearned Income
Lease receivables	$ 1,681	$ 1,482	$ 93	$ 3,256	$ 251	$ 3,507
Loan receivables	842	777	30	1,649	—	1,649
Financed service contracts and other	1,876	1,141	119	3,136	—	3,136
Total	$ 4,399	$ 3,400	$ 242	$ 8,041	$ 251	$ 8,292

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, which consist of the following: 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.

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 October 26, 2013 and July 27, 2013 were $2,289 million and $2,453 million , respectively, and they were associated with financing receivables (net of unearned income) of $8,375 million and $8,292 million as of their respective period ends. The Company did not modify any financing receivables during the periods presented.

The following tables present the aging analysis of financing receivables as of October 26, 2013 and July 27, 2013 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
October 26, 2013	31-60	61-90	91+	Total Past Due	Current	Gross Receivables, Net of Unearned Income	Nonaccrual Financing Receivables	Impaired Financing Receivables
Lease receivables	$ 135	$ 60	$ 148	$ 343	$ 3,206	$ 3,549	$ 28	$ 24
Loan receivables	28	2	16	46	1,762	1,808	7	17
Financed service contracts and other	85	41	277	403	2,615	3,018	12	11
Total	$ 248	$ 103	$ 441	$ 792	$ 7,583	$ 8,375	$ 47	$ 52

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

July 27, 2013	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED) 31-60	61-90	91+	Total Past Due	Current	Gross Receivables, Net of Unearned Income	Nonaccrual Financing Receivables	Impaired Financing Receivables
Lease receivables	$ 85	$ 48	$ 124	$ 257	$ 3,250	$ 3,507	$ 27	$ 22
Loan receivables	6	3	11	20	1,629	1,649	11	9
Financed service contracts and other	75	48	392	515	2,621	3,136	18	11
Total	$ 166	$ 99	$ 527	$ 792	$ 7,500	$ 8,292	$ 56	$ 42

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables are presented by contract, and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The preceding aging tables exclude pending adjustments on billed tax assessment in certain international markets. The balances of either unbilled or current financing receivables included in the category of 91 days plus past due for financing receivables were $320 million and $406 million as of October 26, 2013 and July 27, 2013, respectively.

As of October 26, 2013 , the Company had financing receivables of $92 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 $87 million as of July 27, 2013. 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):

Three Months Ended October 26, 2013	CREDIT LOSS ALLOWANCES Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 27, 2013	$ 238	$ 86	$ 20	$ 344
Provisions	(3)	6	—	3
Foreign exchange and other	2	1	—	3
Allowance for credit loss as of October 26, 2013	$ 237	$ 93	$ 20	$ 350
Gross receivables as of October 26, 2013, net of unearned income	$ 3,549	$ 1,808	$ 3,018	$ 8,375

Three Months Ended October 27, 2012	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)
Foreign exchange and other	3	2	—	5
Allowance for credit loss as of October 27, 2012	$ 248	$ 114	$ 12	$ 374
Gross receivables as of October 27, 2012, net of unearned income	$ 3,340	$ 1,816	$ 2,639	$ 7,795

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. The Company's internal credit risk ratings are categorized as 1 through 10 , with the lowest credit risk rating representing the highest quality financing receivables.

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

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. These balances, as of October 26, 2013 and July 27, 2013, are presented under "(b) Credit Quality of Financing Receivables" above.

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 $6.3 billion and $5.6 billion for the three months ended October 26, 2013 and October 27, 2012 , respectively. The balance of the channel partner financing subject to guarantees was $1.4 billion as of each October 26, 2013 and July 27, 2013 .

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 $25 million and $44 million for the three months ended October 26, 2013 and October 27, 2012 , respectively.

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at October 26, 2013 and July 27, 2013 , 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):

	October 26, 2013	July 27, 2013
Maximum potential future payments relating to financing guarantees:		
Channel partner	$ 483	$ 438
End user	223	237
Total	$ 706	$ 675
Deferred revenue associated with financing guarantees:		
Channel partner	$ (232)	$ (225)
End user	(189)	(191)
Total	$ (421)	$ (416)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	$ 285	$ 259

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):

October 26, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	$ 28,603	$ 37	$ (2)	$ 28,638
U.S. government agency securities	2,394	5	—	2,399
Non-U.S. government and agency securities	907	3	(1)	909
Corporate debt securities	7,974	73	(21)	8,026
U.S. agency mortgage-backed securities	456	5	—	461
Total fixed income securities	40,334	123	(24)	40,433
Publicly traded equity securities	1,820	696	(2)	2,514
Total	$ 42,154	$ 819	$ (26)	$ 42,947

July 27, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	$ 27,814	$ 22	$ (13)	$ 27,823
U.S. government agency securities	3,083	7	(1)	3,089
Non-U.S. government and agency securities	1,094	3	(2)	1,095
Corporate debt securities	7,876	55	(50)	7,881
Total fixed income securities	39,867	87	(66)	39,888
Publicly traded equity securities	2,063	738	(4)	2,797
Total	$ 41,930	$ 825	$ (70)	$ 42,685

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	
	October 26, 2013	October 27, 2012
Gross realized gains	$ 95	$ 63
Gross realized losses	(12)	(36)
Total	$ 83	$ 27

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	
	October 26, 2013	October 27, 2012
Net gains (losses) on investments in publicly traded equity securities	$ 75	$ 10
Net gains on investments in fixed income securities	8	17
Total	$ 83	$ 27

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

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

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at October 26, 2013 and July 27, 2013 (in millions):

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
October 26, 2013	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed income securities:						
U.S. government securities	$ 3,303	$ (2)	$ 8	$ —	$ 3,311	$ (2)
U.S. government agency securities	201	—	—	—	201	—
Non-U.S. government and agency securities	208	(1)	2	—	210	(1)
Corporate debt securities	2,357	(21)	13	—	2,370	(21)
U.S. agency mortgage-backed securities	32	—	—	—	32	—
Total fixed income securities	6,101	(24)	23	—	6,124	(24)
Publicly traded equity securities	45	(2)	—	—	45	(2)
Total	$ 6,146	$ (26)	$ 23	$ —	$ 6,169	$ (26)

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
July 27, 2013	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed income securities:						
U.S. government securities	$ 7,865	$ (13)	$ —	$ —	$ 7,865	$ (13)
U.S. government agency securities	294	(1)	—	—	294	(1)
Non-U.S. government and agency securities	432	(2)	—	—	432	(2)
Corporate debt securities	3,704	(50)	4	—	3,708	(50)
Total fixed income securities	12,295	(66)	4	—	12,299	(66)
Publicly traded equity securities	278	(4)	—	—	278	(4)
Total	$ 12,573	$ (70)	$ 4	$ —	$ 12,577	$ (70)

As of October 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 October 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 months ended October 26, 2013 .

The Company has evaluated its publicly traded equity securities as of October 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.

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

(c) Maturities of Fixed Income Securities

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

	Amortized Cost	Fair Value
Less than 1 year	$ 15,286	$ 15,297
Due in 1 to 2 years	12,310	12,346
Due in 2 to 5 years	12,160	12,204
Due after 5 years	578	586
Total	$ 40,334	$ 40,433

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 three months ended October 26, 2013 and October 27, 2012 was $0.6 billion and $0.8 billion , respectively. The Company requires 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. 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 October 26, 2013 and July 27, 2013, 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 October 26, 2013 and July 27, 2013 were as follows (in millions):

	OCTOBER 26, 2013 FAIR VALUE MEASUREMENTS			JULY 27, 2013 FAIR VALUE MEASUREMENTS		
	Level 1	Level 2	Total Balance	Level 1	Level 2	Total Balance
Assets						
Cash equivalents:						
Money market funds	$ 3,145	$ —	$ 3,145	$ 6,045	$ —	$ 6,045
Available-for-sale investments:						
U.S. government securities	—	28,638	28,638	—	27,823	27,823
U.S. government agency securities	—	2,399	2,399	—	3,089	3,089
Non-U.S. government and agency securities	—	909	909	—	1,095	1,095
Corporate debt securities	—	8,026	8,026	—	7,881	7,881
U.S. agency mortgage-backed securities	—	461	461	—	—	—
Publicly traded equity securities	2,514	—	2,514	2,797	—	2,797
Derivative assets	—	224	224	—	182	182
Total	$ 5,659	$ 40,657	$ 46,316	$ 8,842	$ 40,070	$ 48,912
Liabilities:						
Derivative liabilities	$ —	$ 145	$ 145	$ —	$ 171	$ 171
Total	$ —	$ 145	$ 145	$ —	$ 171	$ 171

Level 1 publicly traded equity securities are determined by using quoted prices in active markets for identical assets. 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.

(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):

	October 26, 2013		October 27, 2012	
	Net Carrying Value as of End of Period	Total Losses for the Period Ended	Net Carrying Value as of End of Period	Total Losses for the Period Ended
Investments in privately held companies	$ —	$ (1)	$ 42	$ (10)

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

The fair value measurement of the impaired investments was classified as Level 3 because significant unobservable inputs were used in the valuation due to the absence of quoted market prices and inherent lack of liquidity. Significant unobservable inputs, which included financial metrics of comparable private and public companies, financial condition and near-term prospects of the investees, recent financing activities of the 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 net book value and the fair value as a result of the evaluation, were recorded to other income (loss), net.

(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 $238 million and $242 million as of October 26, 2013 and July 27, 2013, 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 October 26, 2013 and July 27, 2013 was $2.0 billion and $2.1 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 loan receivables and financed service contracts, and therefore they are categorized as Level 3.

As of October 26, 2013 , the fair value of the Company's senior notes and other long-term debt was $17.6 billion with a carrying amount of $16.2 billion . This compares to a fair value of $17.6 billion and a carrying amount of $16.2 billion as of July 27, 2013. The fair value of the senior notes and other 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.

10. Borrowings

(a) Short-Term Debt

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

	October 26, 2013		July 27, 2013	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Current portion of long-term debt	$ 3,269	0.61%	$ 3,273	0.63%
Other notes and borrowings	10	2.52%	10	2.52%
Total short-term debt	$ 3,279		$ 3,283	

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 October 26, 2013 and July 27, 2013.

Other notes and borrowings consist of the short-term portion of secured borrowings associated with customer financing arrangements as well as notes and credit facilities with a number of financial institutions that are available to certain of the Company's foreign subsidiaries. These notes and credit facilities were 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 October 26, 2013 , the estimated fair value of the short-term debt approximates its carrying value due to the short maturities.

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

(b) Long-Term Debt

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

	October 26, 2013		July 27, 2013	
	Amount	Effective Rate	Amount	Effective Rate
Senior Notes:				
Floating-rate notes, due 2014	$ 1,250	0.61%	$ 1,250	0.62%
1.625% fixed-rate notes, due 2014	2,000	0.62%	2,000	0.64%
2.90% fixed-rate notes, due 2014	500	3.11%	500	3.11%
5.50% fixed-rate notes, due 2016	3,000	3.06%	3,000	3.07%
3.15% fixed-rate notes, due 2017	750	0.82%	750	0.84%
4.95% fixed-rate notes, due 2019	2,000	4.69%	2,000	4.70%
4.45% fixed-rate notes, due 2020	2,500	3.73%	2,500	4.15%
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%
Other long-term debt	23	1.32%	21	1.46%
Total	16,023		16,021	
Unaccreted discount	(63)		(65)	
Hedge accounting fair value adjustments	256		245	
Total	$ 16,216		$ 16,201	
Reported as:				
Current portion of long-term debt	$ 3,269		$ 3,273	
Long-term debt	12,947		12,928	
Total	$ 16,216		$ 16,201	

To achieve its interest rate risk management objectives, the Company has entered into interest rate swaps with an aggregate notional amount of $5.75 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. For additional information see Note 11.

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

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

As of October 26, 2013 , future principal payments for long-term debt, including the current portion, are summarized as follows (in millions):

Fiscal Year	Amount
2014 (remaining nine months)	$ 3,264
2015	505
2016	3,003
2017	751
2018	—
Thereafter	8,500
Total	$ 16,023

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

(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 maintain an interest coverage ratio as defined in the agreement. As of October 26, 2013 , the Company was in compliance with the required interest coverage ratio and the other covenants, and the Company had not borrowed any funds under the credit facility.

The Company may also, upon the agreement of either the 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.

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	October 26, 2013	July 27, 2013	Balance Sheet Line Item	October 26, 2013	July 27, 2013
Derivatives designated as hedging instruments:						
Foreign currency derivatives	Other current assets	$ 57	$ 33	Other current liabilities	$ 10	$ 7
Interest rate derivatives	Other assets	164	147	Other long-term liabilities	—	2
Equity derivatives	Other current assets	—	—	Other current liabilities	122	155
Total		221	180		132	164
Derivatives not designated as hedging instruments:						
Foreign currency derivatives	Other current assets	3	2	Other current liabilities	13	7
Total		$ 224	$ 182		$ 145	$ 171

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

The effects of the Company's cash flow and net investment hedging instruments on 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)		
Derivatives designated as cash flow hedging instruments:	October 26, 2013	October 27, 2012	Line Item in Statements of Operations	October 26, 2013	October 27, 2012
Foreign currency derivatives	$ 38	$ 66	Operating expenses	$ 7	$ (4)
			Cost of sales - service	2	(1)
Total	$ 38	$ 66		$ 9	$ (5)
Derivatives designated as net investment hedging instruments:					
Foreign currency derivatives	$ (19)	$ (24)	Other income (loss), net	$ —	$ —

As of October 26, 2013 , the Company estimates that approximately $49 million of net derivative gains related to its cash flow hedges included in AOCI will be reclassified into earnings within the next 12 months.

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

		GAINS (LOSSES) ON DERIVATIVES INSTRUMENTS FOR THE THREE MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE THREE MONTHS ENDED	
Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Equity derivatives	Other income (loss), net	$ (35)	$ (3)	$ 35	$ 3
Interest rate derivatives	Interest expense	18	(18)	(20)	18
Total		$ (17)	$ (21)	$ 15	$ 21

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

		GAINS (LOSSES) FOR THE THREE MONTHS ENDED	
Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	October 26, 2013	October 27, 2012
Foreign currency derivatives	Other income (loss), net	$ 43	$ 53
Total return swaps - deferred compensation	Operating expenses	17	14
Equity derivatives	Other income (loss), net	11	9
Total		$ 71	$ 76

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

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

	October 26, 2013	July 27, 2013
Derivatives designated as hedging instruments:		
Foreign currency derivatives - cash flow hedges	$ 1,772	$ 1,885
Interest rate derivatives	5,750	5,250
Net investment hedging instruments	577	662
Equity derivatives	779	1,098
Derivatives not designated as hedging instruments:		
Foreign currency derivatives	3,526	3,739
Total return swaps-deferred compensation	396	358
Total	$ 12,800	$ 12,992

(b) Offsetting of Derivative Instruments

The Company presents its derivative instruments at gross fair values in the Consolidated Balance Sheets. However, the Company's master netting and other similar arrangements with the respective counterparties allow for net settlement under certain conditions. As of October 26, 2013 and July 27, 2013 , information related to these offsetting arrangements was as follows (in millions):

	October 26, 2013					
	DERIVATIVES OFFSET IN BALANCE SHEET			DERIVATIVES ELIGIBLE FOR OFFSETTING		
	Gross Derivative Amounts	Gross Derivative Amounts Offset in Balance Sheet	Net Amount	Gross Derivative Amounts	Gross Derivative Amounts Eligible for Offsetting	Net Amount
Fair value of assets	$ 224	$ —	$ 224	$ 224	$ (99)	$ 125
Fair value of liabilities	$ 145	$ —	$ 145	$ 145	$ (99)	$ 46

	July 27, 2013					
	DERIVATIVES OFFSET IN BALANCE SHEET			DERIVATIVES ELIGIBLE FOR OFFSETTING		
	Gross Derivative Amounts	Gross Derivative Amounts Offset in Balance Sheet	Net Amount	Gross Derivative Amounts	Gross Derivative Amounts Eligible for Offsetting	Net Amount
Fair value of assets	$ 182	$ —	$ 182	$ 182	$ (120)	$ 62
Fair value of liabilities	$ 171	$ —	$ 171	$ 171	$ (120)	$ 51

(c) 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 .

(d) 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 October 26, 2013 and July 27, 2013, 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 2014 and 2013, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that were issued in February 2009 and November 2009 and are due in 2019 and 2020 , respectively. In the previous periods, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that were issued in 2006 and 2011 and are due in 2014, 2016, and 2017. 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.

(e) 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 has entered 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.

(f) Hedge Effectiveness

For the fiscal periods presented, amounts excluded from the assessment of hedge effectiveness were not material for fair value, cash flow, and net investment hedges. In addition, hedge ineffectiveness for fair value, cash flow, and net investment hedges was not material for any of the fiscal periods presented.

(g) 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 October 26, 2013 and July 27, 2013.

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, Belgium, China, France, Germany, India, Israel, Italy, Japan, 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 October 26, 2013 are as follows (in millions):

Fiscal Year		Amount
2014 (remaining nine months)	$	293
2015		314
2016		169
2017		103
2018		75
Thereafter		198
Total	$	1,152

(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 October 26, 2013 and July 27, 2013, the Company had total purchase commitments for inventory of $4,020 million and $4,033 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 October 26, 2013 and July 27, 2013, the liability for these purchase commitments was $169 million and $172 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 $304 million and $12 million during the three months ended October 26, 2013 and October 27, 2012 , respectively. As of October 26, 2013 , the Company estimated that future compensation expense and contingent consideration of up to $853 million may be required to be recognized pursuant to the applicable business combination and asset purchase agreements, which included the remaining potential compensation expense related to Insieme Networks, Inc. as more fully discussed in the subsection entitled "Insieme Networks, Inc." 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 $265 million and $263 million as of October 26, 2013 and July 27, 2013, 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 October 26, 2013 , the Company's cumulative gross investment in VCE was approximately $578 million , inclusive of accrued interest, and its ownership percentage was approximately 35% . The Company invested $64 million in VCE during the three months ended October 26, 2013 .

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 share of VCE's losses, based upon its portion of the overall funding, was approximately 36.8% for each of the three months ended October 26, 2013 and October 27, 2012 . As of October 26, 2013 , the Company had recorded cumulative losses from VCE of $475 million since inception, of which losses of $53 million and $42 million were recorded for the three months ended October 26, 2013 and October 27, 2012 , respectively. The Company's carrying value in VCE as of October 26, 2013 of $103 million was 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 October 26, 2013 .

Insieme Networks, Inc. In the third quarter of fiscal 2012, the Company made an investment in Insieme Networks Inc. ("Insieme"), an early stage company focused on research and development in the data center market. 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 October 26, 2013 , the Company owned approximately 83% of Insieme as a result of these investments and has consolidated the results of Insieme in its Consolidated Financial Statements. In connection with this investment, the Company and Insieme entered into a put/call option agreement that provided the Company with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders could require the Company to purchase their shares upon the occurrence of certain events.

During the three months ended October 26, 2013, the Company exercised its call option and entered into a merger agreement to purchase the remaining interests in Insieme. The merger is expected to close in the second quarter of fiscal 2014, at which time the noncontrolling interest holders will be eligible to receive up to two milestone payments which will be determined using agreed-upon formulas based primarily on revenue for certain of Insieme's products. During the three months ended October 26, 2013, the Company recorded a liability of $257 million for compensation expense related to the fair value of the vested portion of amounts that are expected to be earned by the noncontrolling interest holders. Continued vesting and changes to the fair value of the amounts probable of being earned will result in adjustments to the recorded compensation expense in future periods. The maximum amount that could be recorded as compensation expense by the Company is approximately $863 million , including the $257 million that has been expensed through October 26, 2013 . 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 October 26, 2013 there were no other variable interest entities required to be consolidated in the Company's Consolidated Financial Statements.

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

(e) Product Warranties and Guarantees

The following table summarizes the activity related to product warranty liability during the three months ended October 26, 2013 and October 27, 2012 (in millions):

	Three Months Ended	
	October 26, 2013	October 27, 2012
Balance at beginning of period	$ 431	$ 415
Provision for warranties issued	240	162
Payments	(179)	(155)
Balance at end of period	$ 492	$ 422

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.

The Company also provides financing guarantees, which are generally for various third-party financing arrangements to channel partners and other end-user customers. For additional information see Note 7. The Company's other guarantee arrangements as of October 26, 2013 and July 27, 2013 that were subject to recognition and disclosure requirements were not material.

(f) Indemnifications

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 such 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.

The Company is an indemnifier pursuant to such agreements in a case involving certain of the Company's service provider customers that are subject to patent claims asserted by C-Cation Technologies, LLC ("C-Cation") in the United States District Court for the Eastern District of Texas filed on January 25, 2011. C-Cation alleges that the service providers infringe C-Cation's patent through use of Cable Modem Termination Systems and cable modems provided by the Company and other manufacturers. C-Cation is seeking monetary damages and injunctive relief. A consolidated trial is set to begin on December 9, 2013. The Company believes that the service providers have strong defenses and that the Company's products do not infringe the patent. Should the plaintiff prevail, the Company may have an obligation to indemnify its service provider customers for the accused Cisco products. Due to the uncertainty surrounding the litigation process, the Company is unable to reasonably estimate whether any loss has been incurred as a result of this indemnity claim at this time.

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.

(g) 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.

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

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 $394 million for the alleged evasion of import and other taxes, approximately $1.2 billion for interest, and approximately $1.8 billion for various penalties, all determined using an exchange rate as of October 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.

The Company was subject to patent claims asserted by VirnetX, Inc. on August 11, 2010 in the United States District Court for the Eastern District of Texas. VirnetX alleged that various Cisco products that implement a method for secure communication using virtual private networks infringe certain patents. VirnetX sought monetary damages. The trial on these claims began on March 4, 2013. On March 14, 2013, the jury entered a verdict finding that the Company's accused products do not infringe any of VirnetX's patents asserted in the lawsuit. On April 3, 2013, VirnetX filed a motion seeking a new trial on the issue of infringement, which the Company has opposed. The Court held a hearing on VirnetX's motion for a new trial in June 2013, but has not issued a ruling.

The Company was subject to numerous patent, tort, and contract claims asserted by XpertUniverse on March 10, 2009 in the United States District Court for the District of Delaware. Shortly before trial, the Court dismissed on summary judgment all claims initially asserted by XpertUniverse except a claim for infringement of two XpertUniverse patents and a claim for fraud by concealment. XpertUniverse's remaining patent claims alleged that three Cisco products in the field of expertise location software infringed two XpertUniverse patents. XpertUniverse's fraud by concealment claim alleged that the Company did not disclose its decision not to admit XpertUniverse into a partner program. The trial on these remaining claims began on March 11, 2013. On March 22, 2013, the jury entered a verdict finding that two of the Company's products infringed two of XpertUniverse's patents and awarded XpertUniverse damages of less than $35 thousand . The jury also found for XpertUniverse on its fraud by concealment claim and awarded damages of $70 million . In May and June, 2013, the Company filed post-trial motions. On November 20, 2013 the trial court granted the Company's motion for judgment as a matter of law, overturned the jury's finding on the fraud by concealment claim, and vacated the $70 million verdict. Separately, the trial court agreed with the jury that the Company infringed XpertUniverse's patents, and affirmed the verdict awarding XpertUniverse approximately $35 thousand in damages plus accrued interest. The Company expects XpertUniverse to appeal the trial court's decision.

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) Cash Dividends on Shares of Common Stock

During the three months ended October 26, 2013 , the Company declared and paid cash dividends of $0.17 per common share, or $914 million , on the Company's outstanding common stock. During the three months ended October 27, 2012 , the Company declared and paid cash dividends of $0.14 per common share, or $744 million , on the Company's outstanding common stock.

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

(b) Stock Repurchase Program

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of October 26, 2013 , the Company's Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program.

In November 2013, the Company's Board of Directors authorized up to $15 billion in additional repurchases of common stock under this program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately $16.1 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 27, 2013	3,868	$ 20.40	$ 78,906
Repurchase of common stock under the stock repurchase program	84	23.65	2,000
Cumulative balance at October 26, 2013	3,952	$ 20.47	$ 80,906

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.

(c) Other Repurchases of Common Stock

For the three months ended October 26, 2013 and October 27, 2012 , the Company repurchased approximately 12 million and 11 million shares, or $286 million and $203 million , of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

14. Employee Benefit Plans

(a) Employee Stock Incentive Plans

Stock Incentive Plan Program Description As of October 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 of October 26, 2013 , the maximum number of shares issuable under the 2005 Plan over its term was 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 of the 2005 Plan that was approved by the Company's shareholders on November 19, 2013, the maximum number of shares issuable under the 2005 Plan over its term was increased to 694 million .

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, and 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 10 years from the grant date.

The stock options will generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 months 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 became 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 utilized a 60 -month ratable vesting schedule. In addition, the Board of Directors, or other committees administering the 1996 Plan, had the discretion to use a different vesting schedule and did 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 named 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 October 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 . No shares were issued under the Purchase Plan during each of the three months ended October 26, 2013 and October 27, 2012 . As of October 26, 2013 , 51 million shares were available for issuance under the Purchase Plan.

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

(c) Summary of Share-Based Compensation Expense

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

	Three Months Ended	
	October 26, 2013	October 27, 2012
Cost of sales - product	$ 10	$ 10
Cost of sales - service	33	35
Share-based compensation expense in cost of sales	43	45
Research and development	92	84
Sales and marketing	123	130
General and administrative	54	50
Restructuring and other charges	(3)	(3)
Share-based compensation expense in operating expenses	266	261
Total share-based compensation expense	$ 309	$ 306
Income tax benefit for share-based compensation	$ 78	$ 79

As of October 26, 2013 , the total compensation cost related to unvested share-based awards not yet recognized was $2.4 billion , which is expected to be recognized over approximately 2.5 years on a weighted-average basis.

(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 28, 2012	218
Restricted stock, stock units, and other share-based awards granted	(102)
Share-based awards canceled/forfeited/expired	115
Other	(3)
BALANCE AT JULY 27, 2013	228
Restricted stock, stock units, and other share-based awards granted	(24)
Share-based awards canceled/forfeited/expired	13
Other	—
BALANCE AT OCTOBER 26, 2013	217

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.

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

(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 28, 2012	128	$ 19.46	
Granted and assumed	72	18.52	
Vested	(46)	20.17	$ 932
Canceled/forfeited	(11)	18.91	
UNVESTED BALANCE AT JULY 27, 2013	143	18.80	
Granted and assumed	21	22.53	
Vested	(35)	19.51	$ 834
Canceled/forfeited	(5)	18.32	
UNVESTED BALANCE AT OCTOBER 26, 2013	124	$ 19.26	

(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 28, 2012	520	$ 22.68
Assumed from acquisitions	10	0.77
Exercised	(154)	18.51
Canceled/forfeited/expired	(100)	22.18
BALANCE AT JULY 27, 2013	276	24.44
Assumed from acquisitions	3	6.03
Exercised	(24)	19.01
Canceled/forfeited/expired	(6)	29.16
BALANCE AT OCTOBER 26, 2013	249	$ 24.62

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

	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
$ 0.01 – 15.00	11	5.54	$ 4.66	$ 198	6	$ 6.25	$ 96
15.01 – 18.00	35	0.96	17.79	165	35	17.79	165
18.01 – 20.00	13	0.81	19.13	43	13	19.13	43
20.01 – 25.00	79	1.99	22.83	12	79	22.83	12
25.01 – 35.00	111	2.87	30.69	—	111	30.69	—
Total	249	2.34	$ 24.62	$ 418	244	$ 25.08	$ 316

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of $22.46 as of October 25, 2013, that 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 October 26, 2013 was 61 million . As of July 27, 2013 , 271 million outstanding stock options were exercisable and the weighted-average exercise price was $24.84 .

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

(g) Valuation of Employee Share-Based Awards

Time-based restricted stock units and performance-based restricted stock units (PRSUs) that are based on the Company's financial performance metrics are valued using the market value of the Company's common stock on the date of grant, discounted for the present value of expected dividends. On the date of grant, the Company estimated the fair value of the total shareholder return (TSR) component of the PRSUs using a Monte Carlo simulation model. The assumptions for the valuation of time-based RSUs and PRSUs are summarized as follows:

	RESTRICTED STOCK UNITS		PERFORMANCE RESTRICTED STOCK UNITS	
Three Months Ended	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Number of shares granted (in millions)	10	11	4	4
Grant date fair value per share	$ 23.11	$ 17.65	$ 22.70	$ 19.26
Weighted-average assumptions/inputs:				
Expected dividend yield	2.7%	2.9%	2.3%	2.9%
Range of risk-free interest rates	0.0% - 1.4%	0.1% - 0.7%	0.0% - 1.4%	0.1% - 0.7%
Range of expected volatilities for index	N/A	N/A	17.4% - 70.5%	18.3% - 64.6%

The PRSUs granted during the first quarters of fiscal 2014 and fiscal 2013 are contingent on the achievement of the Company's financial performance metrics or its comparative market-based returns. Generally, 50% of the PRSUs are earned based on the average of annual operating cash flow and earnings per share goals established at the beginning of each fiscal year over a three-year performance period. Generally, the remaining 50% of the PRSUs are earned based on the Company's TSR measured against the benchmark TSR of a peer group over the same period. Each PRSU recipient could vest in 0% to 150% of the target shares granted.

15. Comprehensive Income

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest, for the three months ended October 26, 2013 and October 27, 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 27, 2013	$ 379	$ 8	$ 221	$ 608
Other comprehensive income before reclassifications attributable to Cisco Systems, Inc.	170	38	76	284
Amounts reclassified out of other comprehensive income	(83)	(9)	—	(92)
Tax benefit (expense)	(22)	(3)	(3)	(28)
BALANCE AT OCTOBER 26, 2013	$ 444	$ 34	$ 294	$ 772

	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 before reclassifications attributable to Cisco Systems, Inc.	3	66	124	193
Amounts reclassified out of other comprehensive income	(27)	5	—	(22)
Tax benefit (expense)	11	—	(10)	1
BALANCE AT OCTOBER 27, 2012	$ 396	$ 18	$ 419	$ 833

The amounts reclassified out of other comprehensive income into the Consolidated Statements of Operations, with line item location, during each period were as follows (in millions):

	Three Months Ended		
	October 26, 2013	October 27, 2012	
Comprehensive Income Components	Income Before Taxes		Line Item in Statements of Operations
Net unrealized gains on available-for-sale investments			
	$ (83)	$ (27)	Other income (loss), net
Net unrealized gains and losses on cash flow hedging instruments			
Foreign currency derivatives	(7)	4	Operating expenses
Foreign currency derivatives	(2)	1	Cost of sales - service
	(9)	5	
Total amounts reclassified out of other comprehensive income	$ (92)	$ (22)	

16. Income Taxes

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

	Three Months Ended	
	October 26, 2013	October 27, 2012
Income before provision for income taxes	$ 2,540	$ 2,631
Provision for income taxes	$ 544	$ 539
Effective tax rate	21.4%	20.5%

As of October 26, 2013 , the Company had $1.8 billion of unrecognized tax benefits, of which $1.6 billion , if recognized, would favorably impact the effective tax rate. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. The Company believes it is reasonably possible that certain federal, foreign, and state tax matters may be concluded in the next 12 months. Specific positions that may be resolved include issues involving transfer pricing and various other matters. The Company estimates that it is reasonably possible that the unrecognized tax benefits at October 26, 2013 could be reduced by approximately $200 million in the next 12 months .

17. Segment Information and Major Customers

(a) Revenue 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.

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

Summarized financial information by segment for the three months ended October 26, 2013 and October 27, 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	
	October 26, 2013	October 27, 2012
Revenue:		
Americas	$ 7,316	$ 7,023
EMEA	2,933	2,841
APJC	1,836	2,012
Total	$ 12,085	$ 11,876
Gross margin:		
Americas	4,650	4,468
EMEA	1,888	1,798
APJC	1,079	1,176
Segment total	7,617	7,442
Unallocated corporate items	(210)	(203)
Total	$ 7,407	$ 7,239

Revenue in the United States, which is included in the Americas, was $6.4 billion and $6.1 billion for the three months ended October 26, 2013 and October 27, 2012 , respectively.

(b) Revenue 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, Wireless, Data Center, 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 following table presents revenue for groups of similar products and services (in millions):

	Three Months Ended	
	October 26, 2013	October 27, 2012
Revenue:		
Switching	$ 3,754	$ 3,629
NGN Routing	2,043	2,055
Collaboration	1,027	1,020
Service Provider Video	987	1,149
Data Center	601	417
Wireless	540	499
Security	365	338
Other	80	190
Product	9,397	9,297
Service	2,688	2,579
Total	$ 12,085	$ 11,876

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)

(c) Additional Segment Information

The majority of the Company's assets, excluding cash and cash equivalents and investments, as of October 26, 2013 and July 27, 2013 were attributable to its U.S. operations. The Company's total cash and cash equivalents and investments held by various foreign subsidiaries were $42.0 billion and $40.4 billion as of October 26, 2013 and July 27, 2013, respectively, and the remaining $6.2 billion and $10.2 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):

	October 26, 2013	July 27, 2013
Property and equipment, net:		
United States	$ 2,687	$ 2,780
International	586	542
Total	$ 3,273	$ 3,322

18. 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	
	October 26, 2013	October 27, 2012
Net income	$ 1,996	$ 2,092
Weighted-average shares - basic	5,378	5,301
Effect of dilutive potential common shares	52	33
Weighted-average shares - diluted	5,430	5,334
Net income per share - basic	$ 0.37	$ 0.39
Net income per share - diluted	$ 0.37	$ 0.39
Antidilutive employee share-based awards, excluded	174	438

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		
	October 26, 2013	October 27, 2012	Variance
Revenue	$ 12,085	$ 11,876	1.8 %
Gross margin percentage	61.3%	61.0%	0.3 pts
Research and development	$ 1,724	$ 1,431	20.5 %
Sales and marketing	$ 2,411	$ 2,416	(0.2)%
General and administrative	$ 515	$ 560	(8.0)%
Total R&D, sales and marketing, general and administrative	$ 4,650	$ 4,407	5.5 %
Total as a percentage of revenue	38.5%	37.1%	1.4 pts
Amortization of purchased intangible assets	$ 65	$ 122	(46.7)%
Restructuring and other charges	$ 237	$ 59	301.7 %
Operating income as a percentage of revenue	20.3%	22.3%	(2.0) pts
Income tax percentage	21.4%	20.5%	0.9 pts
Net income	$ 1,996	$ 2,092	(4.6)%
Net income as a percentage of revenue	16.5%	17.6%	(1.1) pts
Earnings per share—diluted	$ 0.37	$ 0.39	(5.1)%

Three Months Ended October 26, 2013 Compared with Three Months Ended October 27, 2012

In the first quarter of fiscal 2014 , revenue increased 2% as compared to the first quarter of fiscal 2013.Within the total revenue growth, product revenue increased 1% and service revenue increased 4% . Total gross margin increased by 0.3 percentage points, driven by our cost improvement efforts, as well as some favorability due to the geographic mix of our revenue during the first quarter of fiscal 2014. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses, collectively, increased by 1.4 percentage points, primarily due to a $257 million charge recorded in the first quarter of fiscal 2014 in connection with our agreement to purchase the remaining interest in Insieme. Operating income as a percentage of revenue decreased by 2.0 percentage points, primarily as a result of the $237 million of restructuring and other charges recorded in the first quarter of fiscal 2014 related to the workforce reduction that we announced in August 2013 as well as the Insieme charge. Diluted earnings per share decreased by 5% from the prior year, a result of both a 5% decrease in net income and also, to a lesser degree, from an increase of 96 million shares in our diluted share count.

In the first quarter of fiscal 2014 , revenue increased by $0.2 billion as compared to the first quarter of fiscal 2013. The Americas contributed $0.3 billion of the increase, with higher product revenue in the United States. EMEA added $0.1 billion to the revenue increase, led by revenue growth in the Netherlands and the United Kingdom. Revenue in our APJC segment declined $0.2 billion driven by revenue declines in most large countries in this region. We encountered weakness in product orders for emerging countries in the first quarter of fiscal 2014 , particularly towards the end of the quarter. This weakness was particularly pronounced in emerging countries such as Mexico and Brazil within the Americas, India and China within APJC, and Russia within EMEA and contributed to a level of revenue in the first quarter of fiscal 2014 that was below the expectations we had at the beginning of the quarter.

From a customer markets standpoint, in the first quarter of fiscal 2014 we had moderate revenue growth in the public sector and commercial markets, and slower growth in the enterprise market. Revenue increased in the public sector market, led by higher spending from U.S. state and local governments in first quarter of fiscal 2014 as compared with the first quarter of fiscal 2013. Although we do not believe that the U.S. Federal government shutdown, which occurred during our first quarter of fiscal 2014, had a significant direct impact on our U.S. public sector orders and revenue, we believe it impacts global business confidence and thus our order and revenue momentum more broadly. The service provider customer market experienced a decline in revenue in the first quarter of fiscal 2014 as compared with the first quarter of fiscal 2013 and we experienced considerable weakness with respect to our product orders in this customer market. We believe the weakness in orders was primarily driven by: more conservative IT-related capital spending by customers in this segment than we expected; weakness in Japan, emerging countries, and our U.S. service provider market; and a slowing of business in connection with Service Provider Video and certain of our high-end routing products, some of which is associated with new product transitions.

From a product category perspective, the product revenue increase of 1% year-over-year was driven primarily by the following: an increase of $0.2 billion from Data Center products and an increase of $0.1 billion from Switching products, partially offset by revenue decreases in various other product categories. Most notably we saw a significant decrease of 14% in revenue from Service Provider Video products, which was driven largely by an over 20% decrease in revenue from cable set-top boxes which constitute a significant portion of this product category. We also experienced weakness with respect to revenue from of our high-end routing products which contributed to a slight decline in revenue from our NGN Routing products. Service revenue in the first quarter of fiscal 2014 increased by 4% and reflected slower growth than what we had experienced in recent quarters, which we believe was attributable to the impact of lower product revenue growth rates in recent periods.

In summary, in the first quarter of fiscal 2014 we achieved solid profitability in an inconsistent and mixed global macroeconomic environment despite our lower than expected revenue growth. We continued to experience many of the same challenges we experienced in fiscal 2013 including weakness in parts of the European economy, lower spending in parts of the public sector, a conservative approach to IT-related capital spending by customers, and weakness in emerging countries. In the first quarter of fiscal 2014 we also experienced reduced spending by our service provider customers with the orders much lower than expected, particularly at the end of the quarter. In addition, the challenges we outlined in fiscal 2013 with respect to emerging countries such as China continued and additional emerging countries such as India, Russia, Brazil and Mexico experienced pronounced weakness in orders in the first quarter of fiscal 2014, with the orders also much lower than expected, particularly at the end of the quarter. In both the service provider customer market segment, and in emerging countries, the dynamic business environment suggests that challenges may continue for at least several quarters as issues and factors are identified and addressed. These challenges contributed largely to a decline in product orders on a year-over-year basis for the first quarter of fiscal 2014, and a more significant than expected decline in our product backlog at the end of the first quarter of fiscal 2014. As a result of these challenges, and the decline in our business that we began to experience in the first quarter of fiscal 2014, we announced that we expected our revenue and earnings per share to decline on a year-over-year basis in the second quarter of fiscal 2014.

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.

Other Key Financial Measures

The following is a summary of our other key financial measures for the first quarter of fiscal 2014 (in millions, except days sales outstanding in accounts receivable (DSO) and annualized inventory turns):

	October 26, 2013	July 27, 2013
Cash and cash equivalents and investments	$ 48,201	$ 50,610
Deferred revenue	$ 13,207	$ 13,423
DSO	39 days	40 days
Inventories	$ 1,466	$ 1,476
Annualized inventory turns	12.7	13.8

	Three Months Ended	
	October 26, 2013	October 27, 2012
Cash provided by operating activities	$ 2,649	$ 2,465
Repurchases of common stock—stock repurchase program	$ 2,000	$ 253
Dividends	$ 914	$ 744

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 27, 2013 , 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 first quarter of fiscal 2014 nor do we currently expect a material impact in the next 12 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 $4.0 billion as of October 26, 2013 and July 27, 2013 , 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 $8.9 billion and $9.4 billion as of October 26, 2013 and July 27, 2013 , respectively.