

These prepared remarks should be viewed solely in conjunction with the related quarter's conference call webcast and press release, which can be found [here](#). The webcast includes the prepared remarks as well as a question and answer session.

Please [click here](#) for complete GAAP reconciliation information between our GAAP financial results and our non-GAAP financial results.

Cisco Systems, Inc.
Q4 and FY07 Financial Results Conference Call
Tuesday, August 7, 2007
1:30 p.m. PT

Introduction

Hello, participants, and welcome to Cisco Systems fourth quarter/fiscal year 2007 financial results conference call. At the request of Cisco Systems, today's conference is being recorded. If you have any objection, you must disconnect at this time.

Now I would like to introduce Ms. Blair Christie, Vice President of Corporate Communications for Cisco Systems. Ma'am, you may begin when ready.

Thank you, Marty. And good afternoon, everyone, and welcome to our 70th quarterly conference call.

I'm Blair Christie, and I'm joined by John Chambers, our Chairman and CEO; Dennis Powell, Chief Financial Officer; Rick Justice, Senior Vice President of Worldwide Operations and Business Development; Charlie Giancarlo, Chief Development Officer; Ned Hooper, Senior Vice President of Corporate Development; Frank Calderoni, Senior Vice President of Customer Solutions Finance; and Jim McDonald, Chief Executive Officer of Scientific-Atlanta.

The Q4/fiscal year 2007 press release is on Full National Market Wire and the European Financial and Technology Wire, as well as on the Cisco website at www.cisco.com.

A corresponding web cast with slides and downloadable information regarding Cisco's financial statements can be found on our website in the Investor Relations section.

Additionally, a replay of this call will be available via telephone at 866-357-4205, or 203-369-0122, for international callers; and is also available from August 7th through October 19th, on Cisco's investor relations website.

Throughout this conference call, we will be referencing both GAAP and non-GAAP financial results. Please note, we have provided a reconciliation of GAAP to non-GAAP information in the slides accompanying this web cast. We've also posted full reconciliation information along with all of our financial statements to our website. Please go again to the Financial Section in the investor relations website for further details.

The financial results in this press release are unaudited.

As in previous quarters, we will provide the Cisco and Scientific-Atlanta financial information in order to illustrate the impact of this acquisition. We will also provide additional detail regarding the impact of significant acquisitions closed during our Q4 '07.

Please note that beginning in Q1 of fiscal 2008, we will resume reporting only total Cisco financials and will continue to do so until a point in time where our business is impacted by a material event or an acquisition.

Our commentary today will be slightly longer than normal, due to the fact that we will be providing information on three major topics: our Q4 '07 financial results, our full FY '07 financial results, and a discussion on the next major market transition we see for Cisco. As a result, if we cannot get to the majority of questions by 3 p.m. Pacific time, we will extend this call for 15 minutes.

The matters we will be discussing today include forward-looking statements, and, as such, are subject to the risks and uncertainties that we discuss in detail in our documents filed with the SEC, specifically, the most recent report on forms 10-K and 10-Q, and any applicable amendments which identify important risk factors that could cause actual results to differ materially from those contained in the forward-looking statements.

Unauthorized recording of this conference call is not permitted. And I will now turn it over to John for his commentary on the quarter. John.

Opening Remarks

Thank you, Blair. During the opening comments of the conference call, I will focus on what I view to be the key takeaways for Q4, as well as the revenue guidance for the next quarter, for the fiscal year 2008, and an update on what we think our long-term growth projections could be if we execute well with the appropriate caveats.

The opening comments will also include discussions on what we believe is driving our current growth to these record levels, as well as what we think will be the key factors that we expect will allow us to maintain a strong growth rate. Dennis will follow with additional detail on Q4 and a summary of Cisco's fiscal 2007 performance.

The third section of the call will focus on a more detailed discussion of business momentum and strategy on a geographic, product, and customer segment basis. Dennis will then provide additional financial parameters around our guidance for Q1 and for the fiscal year 2008. I will then wrap it up with some comments in terms of Cisco's momentum going forward into fiscal 2008, and finally our Q&A session.

Now on to the discussion of Q4 and fiscal year 2007. This quarter was the strongest quarter we have seen from a balanced product, geographic, and customer segment perspective in many years. It was another record quarter from a revenue, GAAP, and non-GAAP net income in earnings per share perspective.

To put these record results in perspective, I will summarize the quarterly highlights, first, from a key financial; secondly, from a product and services perspective; third, from a geographic point of view; and, fourth, by customer segment. We will discuss product growth and other financials primarily from a revenue perspective and use orders to add color and momentum to the discussion. The customer segment and geographic discussion will be primarily on orders, as this is how we run our business.

The key financial highlights for Q4 include the following: total record revenue of approximately \$9.4 billion, an 18% year-over-year increase, which was comfortably above our guidance of 15 to 16% provided in the Q3 conference call. If you took Cisco on a standalone basis, this was once again one of the fastest year-over-year revenue growth rates we have seen in several years. We are obviously pleased with both the growth on the top line and bottom line, as well as the market share gains. Order growth was even stronger than revenue growth, and product book-to-build was comfortably above one. Product orders grew in the 19 to 20% range.

Non-GAAP net income was a record \$2.3 billion, an increase year-over-year of approximately 21%. GAAP net income was \$1.9 billion, representing a 25% increase year-over-year. Non-GAAP earnings per share were a record \$0.36 and GAAP earnings per share were \$0.31, which were increases of 20% and 24%, respectively, year-over-year.

Cash generated from operations was \$2.7 billion. We repurchased \$1.5 billion of common stock. And we exited the quarter with \$22.3 billion in cash, cash equivalents, and investments.

Revenue and order growth from our key products and services were very strong across almost all categories. To put this into perspective in terms of my view of our momentum from a product and services perspective this quarter, I will analyze the results in the following four categories: routing, switching, advanced technologies, and services.

First, on products, routing revenue grew year-over-year by 14%.

Switching revenue grew year-over-year by 18%.

And total of all of our advanced technology revenues grew year-over-year by approximately 24%. The advanced technology revenues are larger in terms of their total contribution to our top line than routing is, and this speaks to our market transitions that we're focused on and market adjacencies.

This again speaks to Cisco's balanced product portfolio and our constant evolution of moving into these new market and product adjacencies.

At Cisco, we have been very focused on creating the next generation of products or what we call advanced technologies. We have attempted to develop what we refer to as waves of these technologies that will come to market three to five years after their inception, if we execute well.

At this time, we have the first wave of advanced technologies, which include security, wireless, storage, networked home, and unified communications.

The second wave includes video systems, hosted small business, application networking systems, et cetera.

The third wave, which we are calling at this time emerging technologies -- And Charlie, we hope they're going to involve into Advanced Technologies. These include digital media systems, TelePresence, IPICs, physical security, et cetera.

We were very pleased with the total advanced technology revenue growth for the year. We were particularly pleased with four of the five categories in the first wave having revenue growth of over 20% year-over-year.

Although competition remains robust, we believe we are gaining market share versus almost all of our major competitors in most product categories. But we also believe we are getting a larger share of our customers' total spend on communications and IT.

To add additional information regarding the balance of our orders across our product lines and potential future momentum, 17 of our top 20 product families had year-over-year order growth rates for Q4 of 15% or better.

Our services revenue now represents approximately 16% of our total revenue.

And in Q4, our revenues for services grew year-over-year by approximately 19%. From a geographic perspective, order momentum was very strong and balance was good across our large theaters during Q4. Despite the slower growth for a number of our technology peers in the most recent quarter, our business actually accelerated in many areas in Q4.

I know there have been a number of mixed views about the strength of the U.S. IT spending, especially in large accounts. I am very pleased to share with you, not only that our U.S. business was very strong, but the balance was very good across all customer segments, with average growth rates in the upper teens.

In fact, growth and balance across our customer segments in the U.S. was the best we've seen in a number of quarters. We had very strong growth in other large theaters, led by emerging markets. And I will cover the other major markets in more detail later in the call.

From a customer segment perspective, we again saw very good and strong balance across our commercial markets, service provider, and enterprise segments. The global service provider business remains very strong. Orders from a service provider perspective, not including Scientific-Atlanta, grew in the low 20s year-over-year.

Video continues to drive network demand. It is potentially the killer application for loading and bringing value to the network. We were very pleased with the accelerated momentum from video applications such as consumer video. And broadband build-outs are driving much of this service provider investment.

From an enterprise and commercial perspective, we expect that video applications such as TelePresence and unified communications will continue to load networks and require upgrades to existing networks.

Using Cisco, granted as an aggressive example, as we begin to implement new device communications, TelePresence, and other video applications across our entire company, our expectation of our network loads is going to grow at least 200 to 300% per year over the next several years.

It is our goal to be the leaders in implementation of collaborative business process change and the associated productivity enabled by Web 2.0 technology, and then take the Cisco experience and benefits and our products to our customers.

Having said that, we are also seeing many of our customers in the service provider and enterprise area that are beginning to anticipate much larger growth in network loads.

Scientific-Atlanta grew about 30%, and orders grew approximately 12% in Q4. Jim, congratulations. Great job by the team.

One of the best indications of our industry's anticipated loads on networks is our order growth in high-end routers. While we have had very strong order growth in high-end routers during the first three quarters of fiscal year 2007, averaging approximately 20% year-over-year, growth actually accelerated in Q4, to approximately 30% year-over-year for our high-end routers.

The global enterprise business was very solid, including the public sector. Our enterprise customer segment, on a global basis, grew in the mid-teens. The commercial market segment remained our most steady and predictable segment, again growing in the low 20s from an order perspective.

Anticipating the major question that many of you will ask following these very strong and record results for Q4, why are we experiencing such strong growth, while many of our peers have been a little more challenged? While there is always a chance that this growth may be temporary, however, with the appropriate caveats, we believe that growth may continue well into the future.

We believe that there are a number of factors that are unique to Cisco's ability to grow.

First is our unique balance across over two dozen product areas, four customer segments, and across major developed and emerging countries.

Second is our vision that the network is becoming the platform for all forms of communications and IT.

Third, is the convergence of all data, voice, video, and mobility into IP networks, which is clearly our core competency and we have industry-leading IP expertise in all functions of Cisco.

Fourth, different than almost all of our counterparts, we approach this from both business architecture and a technology architecture perspective, across what we define as a combination of network of networks in each of these four customer segments.

Fifth, from a product perspective, we approach the market with an end-to-end architecture where the products are first loosely then tightly integrated together, rather than focusing on individual routers, switches, security, wireless, storage, unified communications, or other standalone products. We also continue to be reasonably good at internal innovation, acquisitions, and partnerships.

Sixth, it is our view that to be efficient on the above market transitions, you have to have a combined vision of where the industry is going to go, identify what is your sustainable differentiated strategy given that vision, and a discipline to execute on -- in a 12- to 18-month implementation against this long-term three to five year strategy.

While not getting distracted in terms of short-term focus on decisions that may make next quarter or next year's results look good as opposed to preparing for the long run.

Seventh is our global balance of our business, combined with our tremendous cash generation engine -- Dennis, I think it was almost \$10 billion run rate that we're at this last year-- and a very strong pristine balance sheet.

Finally, and potentially the most important in what we believe will drive Cisco's growth for the next decade is what we are calling the second major phase of the Internet's effect on business and communication. We believe this phase two of the internet will result in dramatic innovation and productivity increases enabled by collaboration of Web 2.0 technologies, such as unified communications and TelePresence.

While it is too early to say for sure, we strongly believe that this is evolving from a market transition perspective as we anticipated. And this market transition has the opportunity to be an instant replay of what occurred for Cisco in the very early '90s, and powered Cisco's growth and the growth of the industry for the next decade that followed.

Anticipating your second question following our strong FY 2007 and Q4 results and assuming our vision strategy and our execution remains on track, combined with the reasonable assumption that global economies remain solid, why aren't we increasing our expectations of growth for the long run next fiscal year in Q1?

After careful consideration in watching these trends over three years, we have decided to increase our expectations. As a reminder, we make all of our decisions on what we believe to be the right decisions for the company for the long run and try not to focus on short-term issues for the next quarter, even the next year in implementing our vision and differentiated strategy.

Over the last 16 quarters, our standalone growth in terms of orders at Cisco has averaged in the mid-teens or better. And as Dennis will show you -- share with you later, our earnings in terms of year-over-year growth for each quarter has also been very strong. Therefore, we think it is only appropriate that we are raising our long-term guidance to 12 to 17% year-over-year range, from its current 10 to 15% range.

While at the risk of stating the obvious, there will be times that we may grow above this range and there will definitely be times where we grow below the range. We are also assuming in this long-range guidance, as well as our quarterly and yearly guidance, that our vision of how this industry will evolve will be accurate and we will execute on that vision and with the appropriate assumptions of solid economies around the world.

Cisco will always be affected by major economic changes, capital spending patterns, new and existing competitors, and our ability to execute or not on our strategy. Our expectations for fiscal year 2008, in terms of year-over-year growth, will be in the middle of this range, with expectations in the 13 to 16% year-over-year growth for the fiscal year 2008.

And finally, revenue guidance for Q1 fiscal 2008, including our usual caveats, as discussed in prior calls and financial reports, is for revenues of \$9.45 billion to \$9.55 billion, or approximately 16% year-over-year growth for Q1. We are going to provide this long-range yearly and quarterly guidance in our attempt to communicate even more transparently our expectations.

We clearly realize, and you should expect, for results to periodically be outside these ranges. But, on an average, given the assumptions that we have covered in this call and our financial disclosures, these expectations look reasonable.

In summary, we believe that we are very well positioned in the industry from a vision, differentiated strategy, and execution perspective. As I stated earlier, we believe we are entering the next phase of the internet, as growth and productivity will center on collaboration enabled by Web 2.0 technologies.

We will do our best to provide both the product architectures and the expertise to help our customers in the implementation of these collaborative capabilities from both a technology and a business perspective, as well as to share how we have done this internally.

In short, we are going to attempt to execute a very similar strategy over the next decade, similar to what we did in the early 1990s. And, as we said earlier, it powered growth in the 1990s through today, for literally over a decade. Except with the obvious differences this time being that we are a \$35 billion company with over 60,000 employees focused on this opportunity.

At this time, I'd like to turn it over to Dennis for further discussion of the Q4 financial highlights and a quick summary of the entire fiscal 2007. Dennis, it's all yours.

Financial Overview

Thank you, John. We are very pleased that Cisco's financial results exceeded expectations this quarter for revenue, operating income, net income, and earnings per share.

First, starting with our Q4 results, total revenue for the fourth quarter was \$9.4 billion, an increase of 18% year-over-year. Scientific-Atlanta contributed \$791 million and WebEx and IronPort together contributed \$76 million in Q4.

Routing revenue totaled \$1.9 billion, up 14% year-over-year, due primarily to continued growth in our high-end router portfolio, particularly, the CRS, the 7600, and GSR.

Switching revenue was \$3.3 billion, an increase of 18% year-over-year, due to strengths across our fixed and modular switching portfolio.

Advanced technologies revenue totaled \$2.2 billion, representing an increase of 24% year-over-year. Other product revenue totaled \$503 million, an increase of 8% year-over-year.

And total service revenue was \$1.5 billion, up approximately 19% year-over-year.

Q4 total non-GAAP gross margin was 65.2%, up from 64.5% last quarter. For product only, non-GAAP gross margin for the fourth quarter was 65.2%, up from 64.7% last quarter, primarily due to higher shipment volume, a more favorable mix, and cost savings, and then partially offset by modest price reduction.

Our non-GAAP service margin for the fourth quarter were 65.1%, up from 63.2% last quarter.

We saw improvements in both technical support and advanced services gross margins. There's always some level of volatility in service margins based on revenue levels and mix between technical support and advanced services. Therefore, this fluctuation is not surprising and has limited impact on Cisco's total gross margin.

As expected, non-GAAP operating expenses, as a percentage of revenue, or 35.5% in Q4, up slightly from 34.7% in Q4 of '06. Our Q4 FY'07 non-GAAP tax provision was 25%. Non-GAAP net income for the fourth quarter of fiscal '07 was \$2.3 billion, compared to \$1.9 billion in the fourth quarter of fiscal year 2006, representing a 21% increase year-over-year.

Non-GAAP earnings per share, on a fully diluted basis for the fourth quarter were \$0.36, up from \$0.30 in the fourth quarter of fiscal year 2006, representing a 20% increase year-over-year. GAAP net income for the fourth quarter was \$1.9 billion, as compared to \$1.5 billion in the fourth quarter of fiscal year 2006, representing a 25% increase year-over-year. And GAAP earnings per share on a fully diluted basis for the fourth quarter were \$0.31, up from \$0.25 in the same quarter of fiscal year 2006, representing a 24% increase year-over-year.

Now switching to our full fiscal year performance.

Total revenue for fiscal year 2007 was \$34.9 billion, an increase of approximately 23% over fiscal year 2006 revenue of \$28.5 billion, and representing an 18% increase on a combined organic basis, which assumes that Scientific-Atlanta had been acquired and reported on for all of fiscal year 2006.

Non-GAAP net income for fiscal year 2007, was \$8.4 billion, up approximately 22% from fiscal year 2006, non-GAAP net income of \$6.9 billion. Non-GAAP earnings per share on a fully diluted basis for fiscal year 2007 were \$1.34, up from \$1.10 in fiscal year 2006, representing a 22% increase year-over-year. GAAP net income for fiscal year 2007 was \$7.3 billion, or \$1.17 per share compared to \$5.6 billion or \$0.89 per share for fiscal year 2006; both representing a 31% increase year-over-year.

Product backlog at the end of fiscal year 2007 was \$3.9 billion compared to \$3 billion at the end of fiscal year 2006, an increase for the year of approximately \$900 million, or 29%.

Moving on to the balance sheet

The total of cash, cash equivalents, and investments at the end of Q4 was approximately \$22.3 billion, flat quarter-over-quarter. During Q4, we generated a record \$2.7 billion in cash from operation, as well as \$1.6 billion in proceeds from stock option exercises and employee stock purchases.

We used \$3.3 billion of cash for acquisitions this quarter, net of cash acquired. And we repurchased \$1.5 billion of common stock, or 54 million shares of our stock, at an average price of \$27.33.

For the full fiscal year 2007, we generated \$10.1 billion of cash from operations. We repurchased \$7.8 billion of stock, or 297 million shares of stock, at an average price of \$26.12. The remaining approved amount at the end of FY '07 for stock repurchases is approximately \$8.8 billion.

Moving on to accounts receivable

We ended the quarter at \$4 billion, up from \$3.2 billion at the end of Q3. At the end of Q4 '07, DSO, or days sales outstanding, was 38 days, up from 33 days from Q3, and flat compared to Q4 of '06. The increase from the third quarter was due to the normal seasonal linearity of shipments that we always see this time of the year.

Total inventory for Q4 was \$1.3 billion, relatively flat quarter-over-quarter. Non-GAAP inventory turns were 10.1, up from 8.6 times last quarter. The increase in inventory turns was driven by the successful completion of our Lean implementation. Going forward, we expect to see inventory turns remain in the range of 9 to 10 times. Our inventory purchase commitments at the end of Q4 were \$2.6 billion, the same as at the end of Q3.

Deferred revenue was \$7 billion in Q4 '07, an increase of \$698 million from Q3, and an increase of \$1.4 billion from Q4 of '06. Deferred product revenue increased 41%, and deferred service revenues increased 18% on a year-over-year basis.

At the end of Q4, our head count totaled 61,535, an increase of approximately 4,750 from Q3. Our head count increases were the result of acquisitions of approximately 2,950 and 1,800 Cisco hires in sales, engineering, and services.

Summary

In conclusion, we were very pleased with our performance, both on a fiscal year and a Q4 basis. We've achieved six consecutive quarters of record revenue and non-GAAP net income. We've generated our highest level of cash from operations of \$10.1 billion on \$7.3 billion of GAAP net income in FY '07, which speaks to the quality of our earnings and an effective utilization of our balance sheet. Additionally, our GAAP and non-GAAP earnings per share have increased, on average, by over 22% year-over-year for the past 16 quarters.

And finally, I'm most pleased with our ability to do what we say we're going to do, delivering consistent results that have met or exceeded our guidance for many years.

These results can be attributed to our balanced approach across geographies, products, and customer segments, and a leadership team dedicated to outstanding execution.

Our strategy is clearly working. And I want to congratulate all of our employees on a very successful FY '07.

I'll now turn it over to John.

Geographic, Customer Segment, Product and Strategy Review

Thank you Dennis, a really nice job. In this section of the call, we will cover our geographies, customer segments and product review for Q4 in more detail. The product review will be in revenue growth terms, while the geographic and customer segments will be discussed in bookings terms, unless otherwise indicated.

Geographic

At this point, we will provide additional detail from a geographic and a customer segment point of view. There were a number of positives from our four largest theaters in customer segment.

First, from a U.S. perspective, again, order growth rate was in the upper teens. The U.S. service provider market, not including Scientific-Atlanta, continued to lead the way with order growth approaching 30% for Q4 and high 20s for the fiscal year.

Balance is very good across our four categories of service provider in the U.S., which includes incumbent wireline, wireline, emerging, and cable operations, all of which averaged 25% or greater year-over-year growth during the fiscal year. Balance on the yearly numbers was again very good across all four of our U.S. service provider areas.

The commercial market continued its strong and balanced growth in the high teens for both the quarter and for the fiscal year. Again, balance was unusually good in both time periods across all four commercial operations.

The enterprise business, excluding federal, did see some major swings throughout the year. Q1 growth was in the low 20s, followed by Q2 and Q3 in mid-single digits, and Q4 with order growth rates year-over-year of approximately 12%. We expect the U.S. enterprise growth to be very lumpy, both by U.S. areas and industries moving forward.

For example, in our six U.S. enterprise areas, not including federal, year-over-year growth was spread over a relatively large range from 5 to the low 20s, for the fiscal year. And in Q4, year-over-year growth, for the six enterprise areas, had an even wider range.

Our federal business grew for the first three quarters year-over-year approximately in the 7 to 10% range, and then had a very solid Q4 with growth of approximately 40% year-over-year. Year-over-year order growth across our customer segments, service provider, commercial, enterprise not including federal, in Q4, was very solid, ranging from 12% to 30%.

Perhaps our biggest geographic success of fiscal 2007, was the business process and collaborative approach to our emerging markets, which resulted in growth throughout the year of approximately 35 to 50% in each of the quarters and very solid gross margin and profit contribution, which can often be challenging for high-tech companies in these markets. Growth for the fiscal year was approximately 40%.

While the business by definition will be lumpy, and, based in part on large orders, we have been pleased with the consistent performance. This model for emerging markets appears to have legs for the next decade.

Balance for fiscal 2007 was very good across our four emerging market operations. Middle East and Africa operations led the way with growth in the high 50s, followed by Russia and CIS, with growths to approximately 40%, and Eastern Europe for the year had growth in the high 30s, followed by Latin America with growth in the high 20s.

Again, it is this balance across all four of our emerging operations that is our greatest strength. While there are many caveats, it is obviously too early to say for sure in this process, it is very possible that we can maintain the growth in these markets in the 35 to 45% range for the foreseeable future.

Europe. Our European operations had very solid growth throughout the year, which averaged in the mid-teens for the fiscal year. Seven of the nine geographic operations achieved growth in the range of low teens to low 20s.

Again, we were pleased with this balance. Balance across our four customer segments was good in Europe, exiting Q4 with all four major segments in double digit growth range of in 10% to low 20s year-over-year.

I really want to congratulate Chris and our entire European team after a very tough year in fiscal year 2006, on the very strong and balanced performance in fiscal 2007.

Moving on to Asia-Pacific. The Asia-Pacific theater continued its solid momentum with growth accelerating throughout the year from the low teens to the low 20s in Q4, an average of approximately 15% for the fiscal year. Balance was good with all five major areas achieving solid growth for the year and ranging from high single digits to high 20s for the fiscal year. In Q4, our China operation led the way with growth in the mid-20s. Again, growth in Asia-Pacific was very balanced across all customer segments, ranging from the mid-teens to the high 20s in Q4.

In addition, we are continuing to see some very positive early results of our new globalization strategy with Wim Elfrink, our Chief Globalization Officer moving to Bangalore and taking now what's up to 20 executives with him to develop our new service and support model. We believe this should continue to have a very positive effect throughout the region and the rest of the world.

Japan was flat for both the fiscal year and Q4. As we have mentioned before in prior conference calls, our Japanese operations primarily focus on the service provider market, and we are seeing delays in the next generation network build-outs by the key carriers, which are currently targeted for late this calendar year. To put this in perspective, Japan now represents approximately 4% of our total business.

Moving next to the product discussion

Which includes our total revenue numbers and, by definition, will include our acquisitions. As a reminder in this discussion and in future quarter conference calls, product discussions, we will cover products primarily from a revenue perspective and use orders to add color or illustrate momentum trends.

Total revenue balance was once again very good across our core routing, switching, and advanced technologies both for fiscal year 2007 and for Q4. Routing and switching for the fiscal year, growth grew in the mid -- both grew in the mid-teens. And in Q4 revenue growth was approximately 14% for routing and 18% for switching. Total advanced technologies revenue grew approximately 45% in fiscal year 2007. Our first wave of five advanced technologies in the fiscal year 2007, had revenue growth of approximately 25%, and in total are approaching almost \$6 billion in revenue. And that's just the first wave.

For the fiscal year 2007, unified communications led the way with revenue growth in the low 30s, storage with growth of approximately 30%, wireless growth in the mid-20s, networked home in the low 20s, followed by security growth of approximately 20%. For Q4, revenue growth for these five advanced technologies was 19%. From a revenue perspective in Q4, security led the way with growth in the high 20s, followed by unified communication with growth in the mid-20s, wireless and storage in the low 20s, and the networked home was flat from a revenue perspective.

I realize that this is a lot of detail, but let me just add a little bit more. To add additional color, these five first wave of advanced technologies had order growth rates of approximately 30%, reminding everyone this business is very lumpy. And Q4 orders obviously grew dramatically faster than revenues year-over-year for this first wave.

It is very difficult to single out unique products in Q4, because, candidly, almost all of our top products did very well. However, if there is one product area that I would like to talk about to position the second phase of Internet innovation and productivity enabled by Web 2.0 technology, it would be TelePresence. In Q3, TelePresence systems order grew from the prior quarter by over 300%. In Q4, the number of TelePresence systems grew by over 400% from Q3.

The customer excitement and understanding about both the process change and the collaboration that TelePresence enables has been dramatic. This is especially true at the CEO level, where CEOs not only grasp the effectiveness from a time-and-travel-cost savings, but almost uniformly they understand the value of the business transformation to the organizations. This is the first time in my career that I've seen this type of excitement and interest from CEOs for a technology.

We now have TelePresence orders from approximately 50 customers. These customers are realizing that the lifelike experience unique to TelePresence is enabling business transformation that could drive both top and bottom line growth.

Using TelePresence to create new products and services and enhancing their competitive positioning by leveraging expertise and speed execution and decision making have become the key purchase drivers, even over the reduced travel costs that we know can be dramatic and often pay for the system in less than one year.

As we have shared before, we fully intend to transform both our organization structure and the processes by which we deliver our products and services through the collaboration process in Web2.0, across every function in Cisco.

Just to give you some initial data, we now have 110 TelePresence systems deployed around the world. In the first half of this year, calendar year, we conducted over 17,000 TelePresence meetings.

From a personal perspective, I've had the key customer meetings in one-24-hour time period in India, followed by Japan, followed by London, and Kiev, in addition to working a 10-hour plus day in San Jose. Earlier just last week, in a time period of just several hours, I was in key customer meetings in San Jose, Phoenix, Cleveland, and Jordan.

Unlike voice or old videoconferencing calls, which can often be challenging, TelePresence sessions are, in my opinion, becoming even more effective for me than face-to-face meetings. This is before you even consider the lost time in travel, costs, and wear and tear on the body from traveling.

Another key concept to understand is that the effectiveness of TelePresence, in my opinion, will follow Metcalfe's Law. Metcalfe's Law states that the value of a telecommunication network is proportionate to the square of the number of users of the system.

That is absolutely what I believe we are experiencing at Cisco with TelePresence. Two, four or ten user sites are nice and you get a number of efficiencies. But when we begin to hit 50 and then 100, there are tremendous efficiencies and value to our company, as it relates to changing our organization structure and business processes.

This is just one example why I believe that the second phase of the Internet will enable not only innovation and major productivity improvements with Web 2.0 technologies, but it will enable major collaborative productivity and process changes for all organizations, regardless of size.

From a products perspective, we are not aware of any other company in IT and the communications industry that is even close to these types of growth numbers and market share gains across such a broad array of products.

Vision, Strategy, Execution

In summary, our vision of how the industry is going to evolve appears to be playing out very much as we expected. We believe that our differentiated strategy is also achieving the benefits to both Cisco and our customers that we thought was possible.

And finally, our execution is on target in terms of the results as measured by customer partnership perspective, market share, and share of our customers' total communications and IT expenditures, as the network truly becomes the platform for delivering these capabilities.

It is now my pleasure to turn the call back over to Dennis for a detailed discussion of the financials regarding additional guidance. Dennis, back to you.

Financial Guidance

Thanks, John. Let me remind you again that our comments include forward-looking statements. You should review our recent SEC filings that identify important risk factors and understand that actual results could materially differ from those contained in the forward-looking statements.

The guidance we are providing is on a non-GAAP basis with a reconciliation to GAAP. As John mentioned earlier, for the full fiscal year 2008, we anticipate that our annual revenue will increase between 13 to 16%. We anticipate total revenue for the first quarter to be in the range of \$9.45 billion to \$9.55 billion, representing around a 16% growth year-over-year.

As we said in the past, forecasting gross margin has always been challenging due to various factors such as volume, product mix, variable component costs, customer and channel mix, and competitive pricing pressures. That being said, we believe total gross margins in Q1 will remain at 65%.

With a continued investment in our field and engineering organization that John discussed earlier, we believe Q1 operating expenses will be in the range of 36% of revenue.

We expect interest and other income to be approximately \$180 million in the first quarter.

Our tax provision is expected to be approximately 24% in FY '08, compared to 25% in FY '07.

While we expect to continue our share repurchase program, it is difficult to predict the exact weighted average shares outstanding. We are modeling share count to be flat to up 50 million shares in weighted average shares outstanding for EPS purposes. In this estimate of share count, we are not taking into consideration any further change in stock price that could occur in the first quarter of FY '08.

And just as a point of reference a \$1 increase in our average stock price could increase the calculated shares outstanding for purposes of determining earnings per share by approximately 15 million shares, one five million shares.

Regarding cash flow from operations, we would expect to generate between \$700 to \$900 million per month at these revenue levels. For our Q1 FY '08 GAAP earnings, we anticipate the Q1 GAAP EPS will be \$0.04 to \$0.06 per share lower than non-GAAP EPS, primarily due to acquisition-related charges and stock option expenses. Please see the slides that accompany this web cast for more detail.

Other than these items noted above, there are no other significant differences between GAAP and our non-GAAP guidance. This guidance assumes no additional acquisitions, asset impairments, restructuring, or other events which may or may not be significant.

John, back to you.

CFO Announcement

Thank you, Dennis. I'd like to spend a couple minutes discussing our leadership team and the constant evolution of this team. And I would like to discuss it as it relates to evolution of our financial leadership team specifically.

As we have discussed many times in the past, one of the core competencies at Cisco is our ability to evolve our organization and leadership teams while still maintaining focus on our execution and implementation of our strategy. As most of you know, Cisco has successfully transitioned through several generations of key leaders in every functional leadership role in the company.

After a lot of discussion and some healthy give-and-take, mainly me taking, with Dennis' birthday in December of this year, making him a young 60 years old, he has decided to retire following our second quarter of fiscal 2008. Dennis will join us for his last quarterly conference call in February 2008.

Dennis, you've been a true partner and a great financial leader. If I were to list your accomplishments over the last five years as CFO, we would probably, Blair, add another two hours to this conference call, which you won't let me do.

Your ability to not just be a great financial partner, but also to help lead the company through the most challenging economic times our industry has ever experienced, adjusting not just to increased government compliance that followed, but in leading how we continue to meet both the requirements and the intent of government regulations with classic Cisco integrity.

Under Dennis' financial leadership, we've achieved almost unprecedented growth in profits, cash from operations, market capitalization, and market share versus our peers.

One of the most important things that leadership teams do at Cisco is smooth transitions. With this in mind, Dennis has developed an extremely strong financial team where we have multiple very qualified candidates to succeed you.

After careful consideration, Frank Calderoni has been selected by our leadership team and, with the advice of our Board of Directors, to be, Dennis, your successor.

Frank brings a wealth of experience into this role, both from his three years at Cisco and his prior experience as CFO at two companies in our industry. Frank and I both share a common background and development from our time at IBM. Although I must point out that I have learned to wear colored shirts, and, Frank, you're still wearing white shirts. But I guess that must be a CFO thing. Dennis, you can work on that.

I am very proud of the breadth and depth of our leadership team in all of our functions, as well as our ability to smoothly evolve through these transitions, which will occur regularly within all the functions at Cisco.

So, Frank, I'm going to give you the same advice that I once got when I became CEO, "Do a great job, have fun, and don't mess it up." We know you won't, and I look forward to working with you as a business partner and as a financial partner.

Dennis, I'll really miss working with you. We've had a great five years together and look forward to the next couple quarters.

Thank you.

Summary

Moving on to the summary comments. The following is a summary of my views of Cisco's momentum and opportunities entering the first quarter of fiscal 2008.

In areas that Cisco can control or influence, our momentum continues to be even stronger than it was a year ago. Balance continues to be very good across our geographies, products, services, and customer segments.

It is the consistency of our results, both from an orders perspective and profits perspective over the last 16 quarters, with orders growing consistently from an internal perspective in the mid-teens or better, on average, and profits, on average, per share growth of over 22% in terms of quarterly year-over-year averages.

This is truly the scorecard for our ability to execute on our vision and differentiated strategy.

From a geographic perspective, we continue to be optimistic about the economies in our key markets, based upon what our customers are telling us and our balance strength across customer segments, product families, and value added services.

From a U.S. perspective, the service provider and commercial market segments continue to be very strong. While we did experience challenges in Q2 and Q3 of the enterprise market, Q4 was solid.

We clearly see the same things that each of you see in terms of opportunities and concerns in the U.S. market. From a business spending point of view relative to Cisco, it feels pretty good.

Last conference call, we talked about the strategic relevance that Cisco has to our service provider customers with the potential for this to evolve the same way as our enterprise leadership evolved over the last 15 years, with the associated business benefits to both Cisco and our service provider customers.

We appear to be continuing to expand this unique business relationship with this customer segment.

The exciting things about phase two of the Internet, enabled by collaboration and Web 2.0, is how this will develop across all of our customer segments with potentially major speed and effectiveness, if we're right in our assumption.

And if we're right about the value it brings to both business and individuals, this is truly the top of the first inning of a nine inning game, in terms of its broad business acceptance and associated benefits.

We clearly intend to lead all companies in our implementation, organizational evolution and associated productivity of how these new collaborative technologies with a competitive advantage of how we ourselves will become the best example for what this means to a company's future.

It will allow us, instead of doing one or two major projects a year, which we've done for the last six or seven years, that the senior management team, mainly the people in this room, aggressively lead, to target 20 for next fiscal year.

We will continue to provide you updates on our programs in terms of the internal implementations and benefits.

The commercial market remains very solid and very well balanced on a global basis. We are continuing to expand our products, services, and distribution capabilities to this very important strategic market.

Our architectural strategy in emerging markets is working extremely well. Barring some major economic or political surprises across many of these emerging countries, I would expect this theater to have the potential to grow more than twice the average growth rate of the other four theaters, if we execute effectively.

Our balanced product momentum across our core technologies and advanced technologies continue to do the best that I've seen in a number of quarters. But again, it is this loosely and then tightly coupled product strategy for these technologies that dramatically differentiates Cisco from our peers.

Our pipeline of potential new core routing and switching products looks very good. Our continued evolution of the first wave of advanced technologies and the emergence of a second wave of advanced technologies is evolving as we expected. At the same time we are beginning to plan a potential third wave with our early stages of emerging technologies.

In summary, our product pipeline is in excellent shape and looks really exciting.

Having said that, obviously, the proof continues to be in the results.

On a global and U.S. basis, we see the same challenges and uncertainties from an economic, political, and capital spending concern that many of you continue to witness.

Again, at the risk of stating the obvious, Cisco will always be affected by major economic changes, capital spending patterns, new and existing competitors, and our ability to execute or not on our strategy. However, for four straight years, our average growth per quarter has been in the mid-teens for orders and over 22% from an earnings per share basis.

Once again, with the usual caveats, our Q1 fiscal 2008 guidance is for Q1 revenue of \$9.45 billion to \$9.55 billion, or approximately 16% year-over-year growth, which is slightly above the middle of our new long-range goals for growth in the 12 to 17% in the long range.

This aggressive guidance obviously indicates a solid degree of confidence in our vision, strategy, and execution capabilities, as well as business momentum, once again, with the usual caveats regarding macroeconomic conditions, capital spending, et cetera.

We will focus on what we can control or influence and attempt to position Cisco to gain momentum in market transitions, whether they are in industry consolidation, product transitions, or economic.

In summary, for those areas that we can control, we believe that our vision, strategy, and execution are in great shape and producing results.

As always, I want to thank our shareholders, customers, employees, and partners for their support and continued confidence in our ability to execute during rapid industry consolidation, market transitions, and challenging economic times.

Closing Remarks

Now, Blair, I'd like to turn it over to you to run the Q&A session.

Great. Thank you, John. We will now open the floor to Q&A. And we still request that you please ask only one question. So, Marty, can we please open the floor.

The prepared remarks set forth above and the related conference call contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, statements regarding future events (such as the development of our markets, the future of networking, Cisco's strategy and positioning, and our ability to foresee market transitions) and the future financial performance of Cisco that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including: business and economic conditions and growth trends in the networking industry and in various geographic regions; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; the growth of the Internet and levels of capital spending on Internet-based systems; variations in customer demand for products and services, including sales to the service provider market and other customer markets; the timing of orders and manufacturing and customer lead times; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; variability of component costs; variations in sales channels, product costs or mix of products sold; our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses and technologies; increased competition in the networking industry; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks, including risks relating to our transition to a new manufacturing model; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters; natural catastrophic events; a pandemic or epidemic; achievement of the benefits anticipated from our investments in sales and engineering activities; our ability to recruit and retain key personnel; our ability to manage financial risk; currency fluctuations and other international factors; potential volatility in operating results; and other factors listed in Cisco's most recent reports on Form 10-K and Form 10-Q. The financial information contained in the prepared remarks and the related conference call should be read in conjunction with the consolidated financial statements and notes thereto included in Cisco's most recent reports on Form 10-K and Form 10-Q, each as it may be amended from time to time. Cisco's results of operations for the three and twelve months ended July 28, 2007 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in the prepared remarks and the related conference call are based on limited information currently available to Cisco, which is subject to change. Although any such projections and the factors influencing them will likely change, Cisco will not necessarily update the information, since Cisco will only provide guidance at certain points during the year. Such information speaks only as of the date of the prepared remarks and the related conference call.

