



CISCO SYSTEMS, INC. Q1 FY 2006 CONFERENCE CALL

November 9, 2005

GAAP Reconciliation and Forward-Looking Statements

Cisco.com

GAAP RECONCILIATION

During this presentation references to financial measures of Cisco will include references to non-GAAP (pro forma) financial measures. Cisco provides a complete reconciliation between GAAP and non-GAAP (pro forma) financial information on our website at www.cisco.com under “About Cisco” in the “Investor Relations” section.

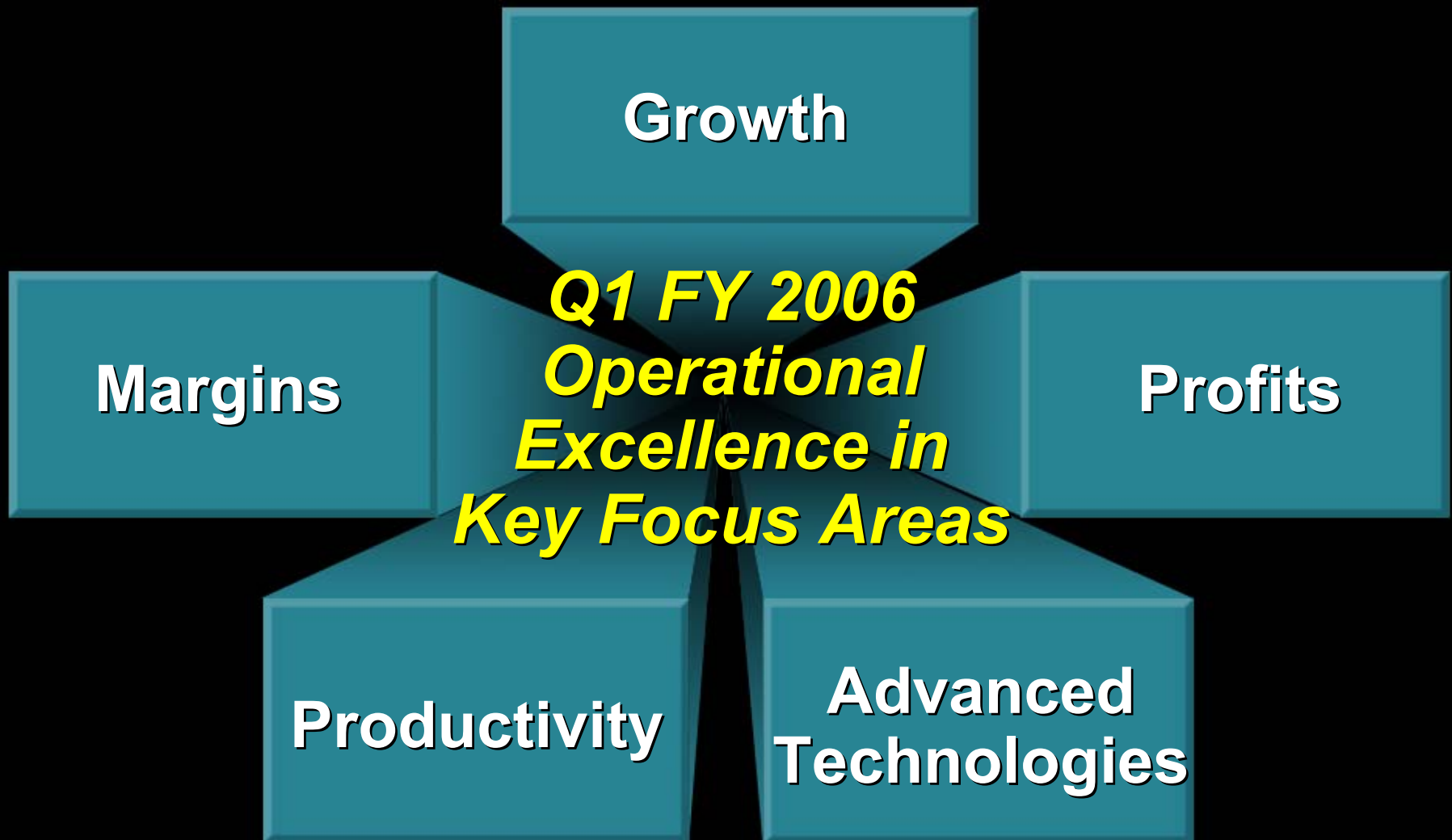
www.cisco.com/go/gaap_recon

> FORWARD-LOOKING STATEMENTS

This presentation contains projections and other forward-looking statements regarding future events or the future financial performance of Cisco, including future operating results. These projections and statements are only predictions. Actual events or results may differ materially from those in the projections or other forward-looking statements. Please see Cisco’s [filings with the SEC](#), including its most recent filings on Forms 10-K and 10-Q, for a discussion of important risk factors that could cause actual events or results to differ materially from those in the projections or other forward-looking statements.

Q1 FY 2006 Operational Excellence

Cisco.com



Q1 FY 2006 Summary

Cisco.com

- **Strong GAAP & non-GAAP (pro forma) Net Income**
- **Continued execution on profitability**
 - ❖ Year over Year revenue increased approximately 10%
 - ❖ 14th consecutive quarter of non-GAAP (pro forma) net income, as a percentage of revenue, above 20% - 8th consecutive quarter at or above 24%
- **Solid financial metrics**
 - ❖ Non-GAAP (pro forma) product gross margins of 68.5%
 - ❖ Cash flow from operations of \$1.4B
 - ❖ Approximately \$13.5B in cash & investments
 - ❖ Book to bill slightly below one
- **Solid productivity metrics**
 - ❖ Non-GAAP (pro forma) operating expenses at 37.0% of revenue

Q1 FY 2006 Net Income

Q1 FY06 non-GAAP (pro forma) EPS up 19% year-over-year

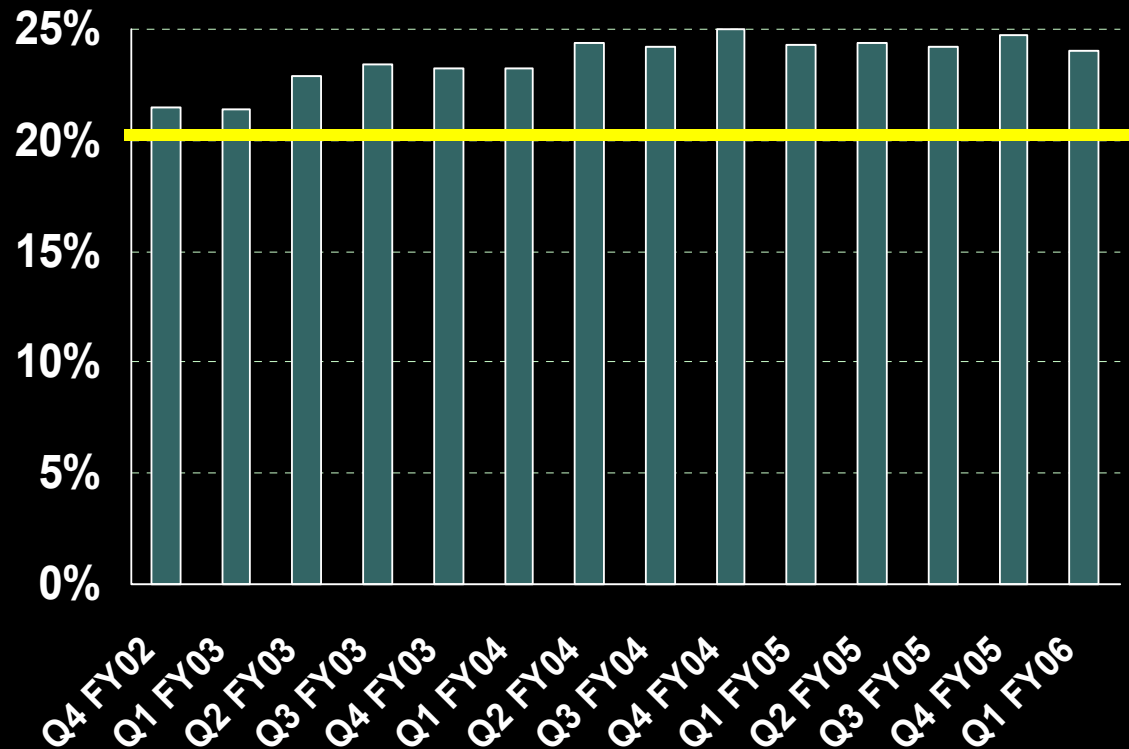
Q1 FY06 EPS

- GAAP: \$0.20
- Non-GAAP: \$0.25
(pro forma)

Q1 FY06 Net Income

- GAAP: \$1.3B
- Non-GAAP: \$1.6B
(pro forma)

Non-GAAP (pro forma) Net Income
as a Percentage of Revenue



Agenda

Cisco.com

- **Financial Overview**
- **Quarterly Overview**
- **Advanced & Emerging Technology Strategy**
- **What Went Well & Areas of Concern**
- **Guidance**

Q1 FY 2006 Revenue

Cisco.com

	Q1 FY06	Year/Year Growth
Routers	\$1.42B	13%
Switches	\$2.68B	3%
Advanced Tech	\$1.21B	25%
Other	\$183M	(16)%
Product	\$5.5B	9%
Services	\$1.06B	13%
Total	\$6.5B	10%

Q1 FY 2006 Stock-Based Compensation Expense

Cisco.com

\$M

Q1 FY06

Stock-based compensation expense allocation:

Cost of sales	\$ 53
Operating expenses	264
Stock-based compensation expense, pre-tax	317
Tax benefit	(89)
Total stock-based compensation expense, net of tax	\$ 228

Quarter-to-Quarter Comparison of Net Income Including the Effect of Stock-Based Compensation Expense

Cisco.com

\$M	Q1 FY05	Q4 FY05	Q1 FY06
Net Income – as reported for prior periods (1)	\$1,396	\$1,540	N/A
Stock-based compensation expense	(460)	(363)	\$(317)
Tax benefit	184	88	\$89
Stock-based compensation expense, net of tax (2)	(276)	(275)	\$(228)
Net Income, including the effect of stock-based compensation expense (3)	\$1,120	\$1,265	\$1,261
Diluted net income per share – as reported for prior periods (1)	\$0.21	\$0.24	N/A
Stock-based compensation expense, net of tax, per share (2)	\$(0.04)	\$(0.04)	\$(0.04)
Diluted net income per share, including the effect of stock-based compensation expense (3)	\$0.17	\$0.20	\$0.20

(1) Net income and net income per share prior to fiscal 2006 did not include stock-based compensation expense under SFAS 123.

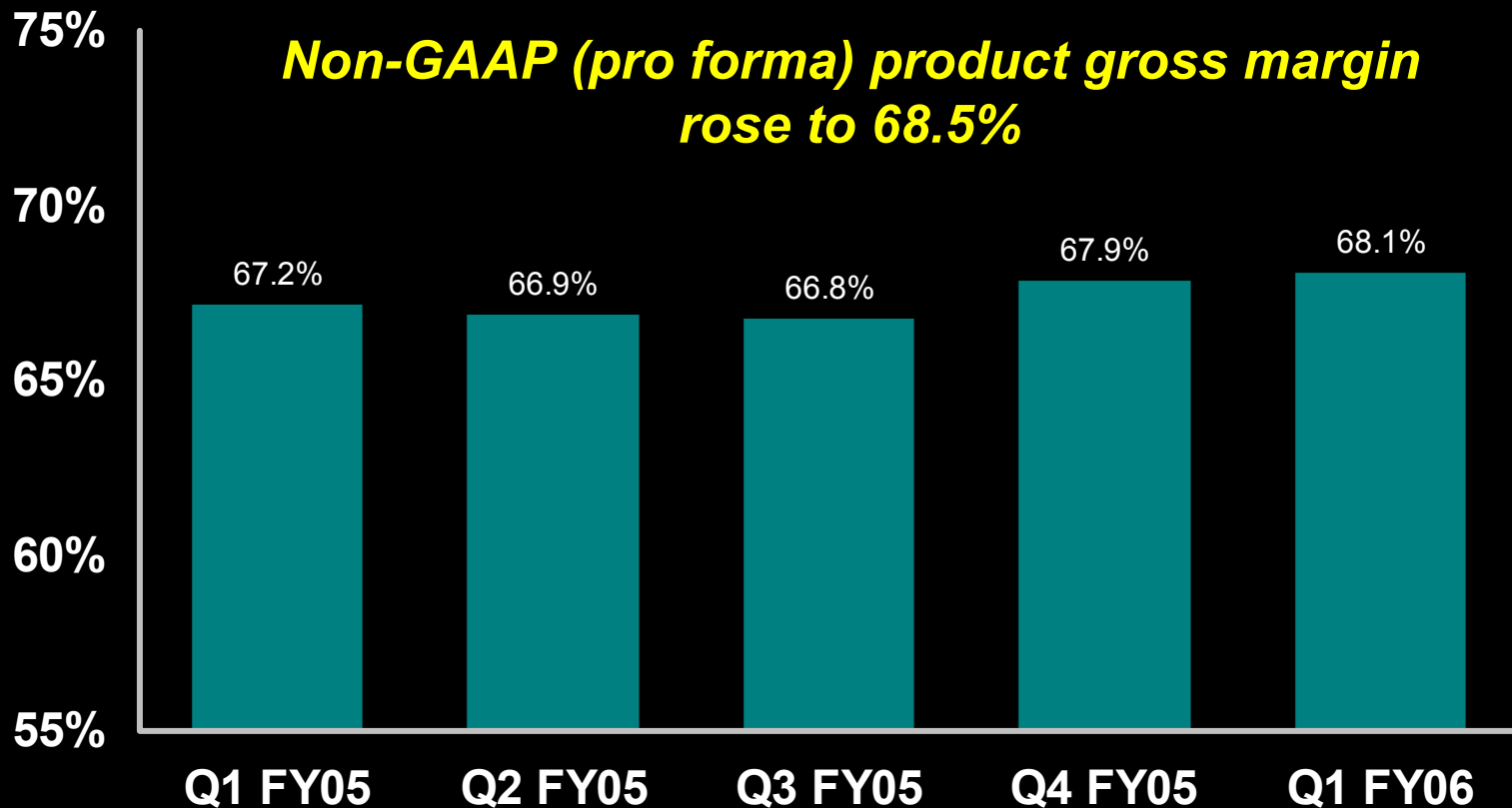
(2) Stock-based compensation expense and stock-based compensation expense per share prior to fiscal 2006 is calculated based on SFAS 123 as previously disclosed in Cisco's financial statements footnotes.

(3) Net income and net income per share prior to fiscal 2006 represents pro forma information based on SFAS 123 as previously disclosed in Cisco's financial statements footnotes.

Q1 FY 2006 Non-GAAP (Pro Forma) Gross Margin

Cisco.com

**Total non-GAAP (pro forma) gross margin
68.1% in Q1 FY06**



Q1 FY 2006 Non-GAAP (Pro Forma) Income Statement

Cisco.com

Q1 FY06 non-GAAP (pro forma) net profit margin of 24.0%

\$M	Q1 FY05	Q4 FY05	Q1 FY06
Net Sales	5,971	6,581	6,550
Gross Margin	67.2%	67.9%	68.1%
Operating Expenses	2,114	2,365	2,421
Opex (% of Revenue)	35.4%	35.9%	37.0%
Operating Income	1,901	2,103	2,042
Net Income	1,453	1,626	1,569
Net Income (% of Revenue)	24.3%	24.7%	24.0%
EPS (diluted)	\$0.21	\$0.25	\$0.25

Reconciliation of GAAP to Non-GAAP (Pro Forma) Net Income

Cisco.com

\$M	Q1 FY05	Q4 FY05	Q1 FY06
GAAP Net Income	\$ 1,396	\$1,540	\$1,261
Stock-based compensation expense under SFAS 123(R)	--	--	317
Payroll tax on stock option exercises	1	5	2
In-process research and development	12	6	2
Compensation expense related to acquisitions and investments	40	39	40
Amortization of purchased intangible assets	60	56	59
(Gain) / Loss publicly traded equity securities	(53)	--	--
Income tax effect	(3)	(20)	(112)
Non-GAAP (pro forma) Net Income	\$1,453	\$1,626	\$1,569

Q1 FY 2006 Net Income

Q1 FY06 non-GAAP (pro forma) EPS up 19% year-over-year

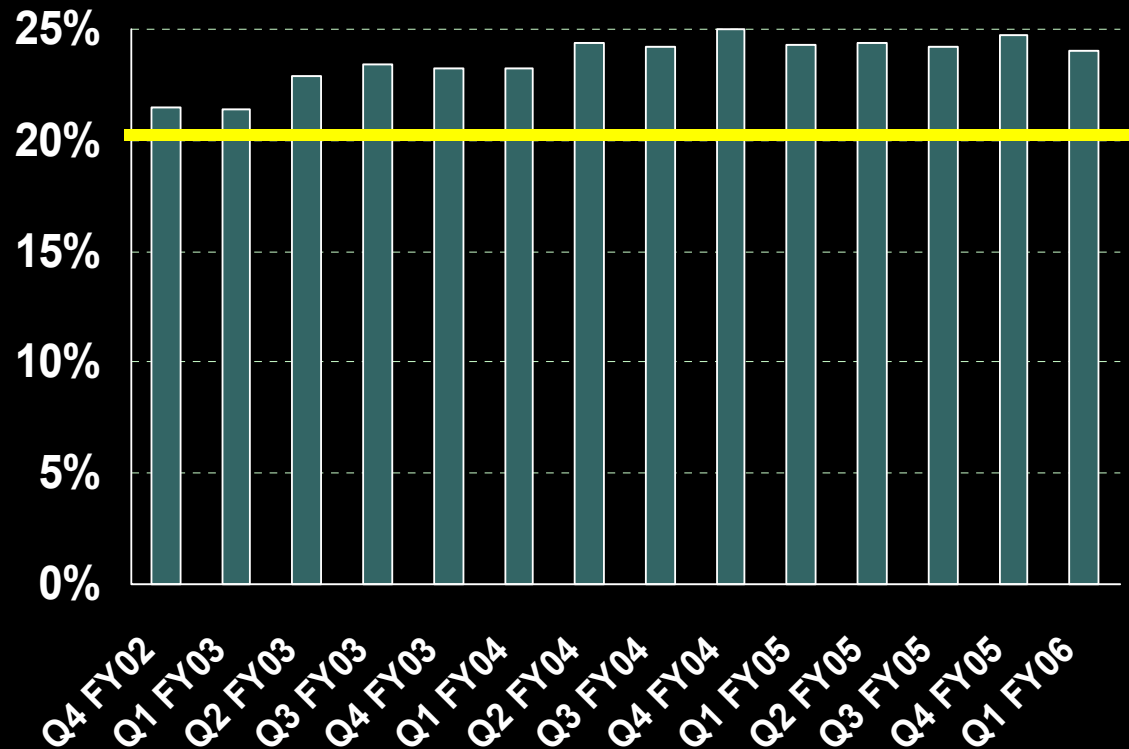
Q1 FY06 EPS

- GAAP: \$0.20
- Non-GAAP: \$0.25
(pro forma)

Q1 FY06 Net Income

- GAAP: \$1.3B
- Non-GAAP: \$1.6B
(pro forma)

Non-GAAP (pro forma) Net Income
as a Percentage of Revenue



Q1 FY 2006 Cash Flow from Operations

Cisco.com

Cisco has \$13.5B in Cash & Investments

- Cash flow from operations of approx. \$1.4B in Q1
- Uses of cash may include:

**Stock repurchase: approx. \$3.5B repurchased in Q1;
approx. \$30.7B since inception**

Strategic investments

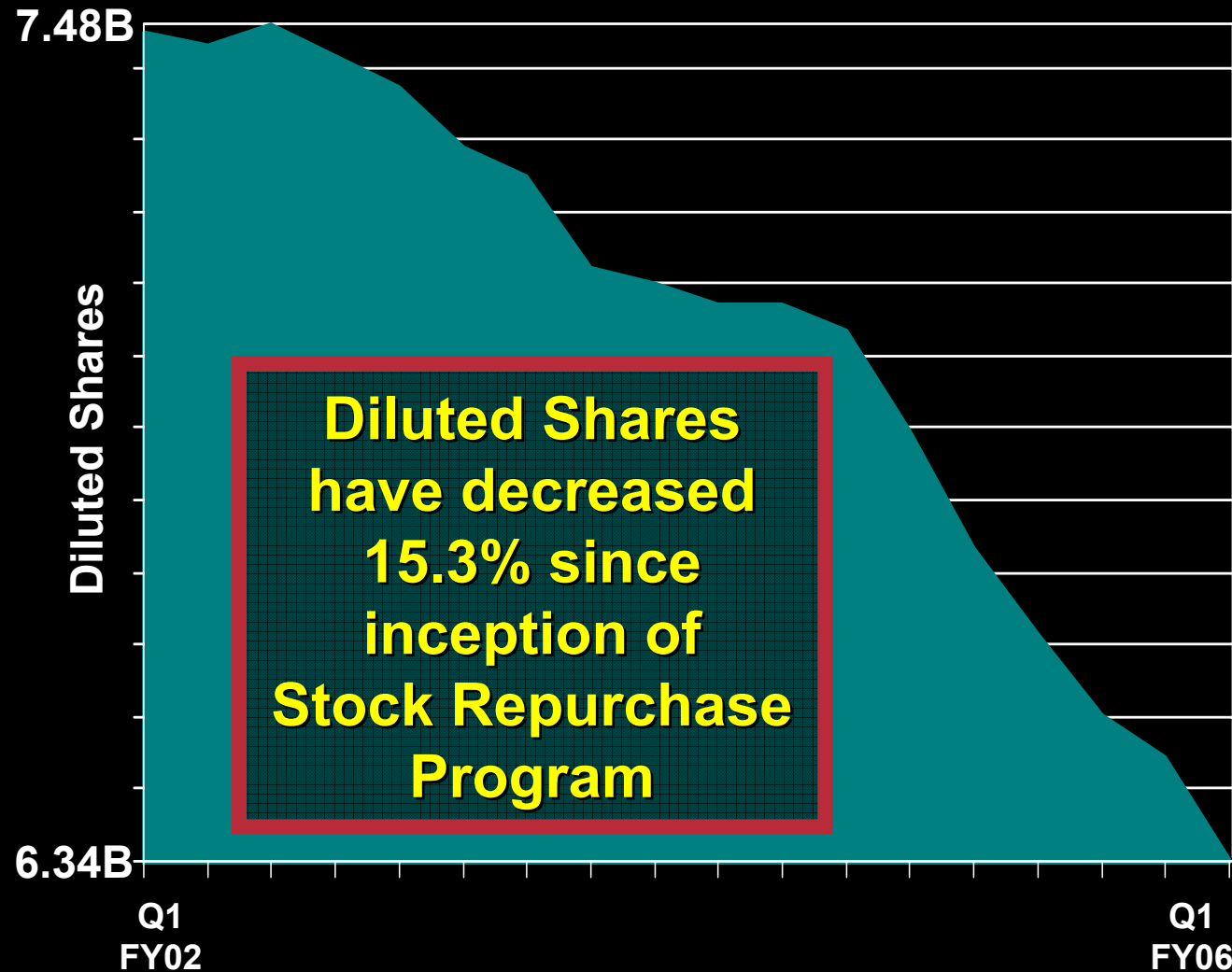
Acquisitions

Funding financing activity in Cisco Capital

Cash flow statement available via press release and website

Weighted Average Diluted Shares

Cisco.com



1.7B
Shares
Repurchased
vs.
304M
Options
Exercised

5.6X

Share Repurchase Program

Cisco.com

Event	Amount Purchased (M)	Number of Shares (M)	Avg Price Per Share
Repurchase Program Approved for \$3B			
FY 2002 Purchases	\$ 1,854	124	\$14.93
Repurchase Program Increased by \$10B			
FY 2003 Purchases	\$ 5,984	424	\$14.10
Repurchase Program Increased by \$12B			
FY 2004 Purchases	\$ 9,080	408	\$22.30
Repurchase Program Increased by \$10B			
FY 2005 Purchases	\$10,235	540	\$18.95
FY 2006 Purchases YTD	\$ 3,500	194	\$18.03

Total amount repurchased since inception

\$30.7B

Total shares repurchased since inception

1.7B

Average price per share since inception

\$18.14

Remaining funds in repurchase program

\$4.3B

Q1 FY 2006 Key Financial Measures

Cisco.com

	Q1 FY05	Q2 FY05	Q3 FY05	Q4 FY05	Q1 FY06
Cash and Investments (\$M)	17,727	16,525	16,149	16,055	13,490
Accounts Receivable (\$M)	1,792	2,278	2,241	2,216	2,342
Days Sales Outstanding	27	34	33	31	33
Inventory (\$M)	1,210	1,255	1,280	1,297	1,318
Inventory Turns *	6.5	6.5	6.5	6.6	6.4
Revenue (\$M)	5,971	6,062	6,187	6,581	6,550
Y/Y Growth %	17%	12%	10%	11%	10%
Deferred Revenue (\$M)	4,261	4,647	4,816	5,042	4,794
Headcount	35,086	35,962	37,050	38,413	39,262

* Q1 FY2006 inventory turns amount is non-GAAP (pro forma)

Agenda

Cisco.com

- **Financial Overview**
- **Quarterly Overview**
- **Advanced & Emerging Technology Strategy**
- **What Went Well & Areas of Concern**
- **Guidance**

Q1 FY 2006 Geographic Product Orders

Cisco.com

Product order distribution reflecting new theater organizational structure announced in Q4 FY2005

% of Product Orders	Q1 FY05	Q2 FY05	Q3 FY05	Q4 FY05	Q1 FY06
United States & Canada	51%	47%	49%	50%	53%
Europe	23%	26%	27%	26%	20%
Emerging Markets	9%	9%	8%	8%	10%
Asia Pacific	10%	11%	10%	11%	12%
Japan	7%	7%	6%	5%	5%

Agenda

Cisco.com

- **Financial Overview**
- **Quarterly Overview**
- **Advanced & Emerging Technology Strategy**
- **What Went Well & Areas of Concern**
- **Guidance**

Agenda

Cisco.com

- **Financial Overview**
- **Quarterly Overview**
- **Advanced & Emerging Technology Strategy**
- **What Went Well & Areas of Concern**
- **Guidance**

What Went Well

- **Continued balanced approach to geographic, product and customer segments**
 - Strength and balance in the US across all three major market segments
 - Growth and balance from Asia Pacific – well positioned in both China & India
- **Continue to demonstrate market leadership in most of our product areas**
 - Enterprise IP Communications revenue grew in the low 40s Y/Y
 - Security revenue grew in the high 20s Y/Y
 - Wireless revenue grew in the upper-teens Y/Y
 - Networked home revenue grew in the high single digits Y/Y
 - Storage revenue grew approximately 100% Y/Y
 - Optical revenue was flat Y/Y
- **More of our large customers are committing to Cisco's architectural approach**
- **Solid financial performance**

Areas of General Concern

- **Continued swings in global economic activity and therefore capital spending – Japan and Europe**
- **Expect expanding wave of low price competitors from Asia**
- **Opportunity to invest, including hiring creates upfront expense**
 - Short term payback and long-term benefits expected if executed right and elasticity continues to be reasonably broad**
- **While pleased with Y/Y growth in US Federal, funds can be quickly redirected to other issues**
- **GDP continues to be a good indicator for our traditional business**
 - Should be combined with additional opportunities from advanced technologies, the service provider and commercial market segments and potential market share gains**

Agenda

Cisco.com

- **Financial Overview**
- **Quarterly Overview**
- **Advanced & Emerging Technology Strategy**
- **What Went Well & Areas of Concern**
- **Guidance**

Macro Guidance for FY 2006

Cisco.com

- **We continue to stay with FY2006 revenue guidance of 10-12% year over year growth**
- **We see opportunities for growth as well as market share gains in many of our products that focus on the commercial market**
- **In Q2 we will continue investments in headcount and related expenses as we are getting more aggressive in expanding our sales coverage and resources committed to existing and a second wave of Advanced Technologies**
- **For FY2006 we expect product orders will grow in the 10-15% range y/y, with appropriate caveats**
- **We continue to anticipate product orders should grow faster than revenue y/y in Q2 FY2006 and revenue should grow faster than product orders y/y in Q3 and Q4 FY2006**

Hypothetical Example

Q1 FY06 book to bill was slightly below 1
Q1 FY06 orders grew faster than revenue

	Q1 FY05	Q1 FY06	Year/Year Growth
Orders	950	1,078	13%
Revenue	1,000	1,100	10%
Book to Bill	0.95	0.98	

Assumptions: Q1 FY05 book to bill was below 1 at 0.95. Q1 FY06 book to bill was slightly below 1 at 0.98 theoretically.

If revenues grew at 10% it would be logical that orders would grow approx. 13%.

Non-GAAP (Pro Forma) Guidance for FY 2006

Cisco.com

- **Cisco's long term revenue growth rate over the next few years should be between 10-15% on an annual basis**
- **Expect revenue growth of 10-12% for FY 2006**
- **Total gross margins between 66-67% over the course of the year**
- **Expect Q2 operating expenses will trend up slightly. Full year operating expenses expected at approximately 36% of revenue**

Non-GAAP (Pro Forma) Guidance for Q2 FY 2006

Cisco.com

- **PRODUCT ORDER GROWTH:** approximately 10-14% Y/Y
- **REVENUE:** up approximately 8-9% Y/Y
- **GROSS MARGIN:** approx. 67%; slightly above or slightly below
- **OPERATING EXPENSES:** will trend up slightly in Q2
- **OPERATING INCOME:** in the range of 30% of revenue
- **INTEREST AND OTHER INCOME:** approximately \$150M
- **TAX RATE:** 28%
- **SHARE COUNT:** Down approximately 50 million shares
- **CASH FLOW FROM OPERATIONS:** \$300M–\$600M per month at current revenue levels

GAAP Reconciliation Guidance for Q2 and FY 2006

Cisco.com

- Before the impact of the adoption of FAS 123(R), we anticipate that Q2 FY 2006 GAAP EPS will be 1-2 cents per share lower than non-GAAP (pro forma) EPS, due to ongoing amortization of purchased intangible assets and stock-based compensation costs arising from various purchase acquisitions and investments. These charges will be reported as GAAP operating expenses.
- Currently anticipate Q2 FY 2006 GAAP EPS will be a further approx. 3-4 cents per share lower due to the adoption of FAS 123(R).
- Total potential reduction of 4-6 cents to GAAP EPS for Q2 FY 2006.
- For FY 2006, we expect the impact of stock options expensing will be a reduction of between 12-14 cents to our GAAP EPS, giving a total FY 2006 impact of 16-22 cents.
- We anticipate that the FAS 123(R) stock option expenses for the remainder of FY2006 will be allocated to the various line items of the GAAP income statement in similar proportions as Q1 FY2006.
- These expenses will be reported in the individual line items on the income statement and will be included in the GAAP financial statements only.
- Guidance assumes no additional acquisitions, asset impairments, restructuring or other unanticipated events which may or may not be significant.

Forward-Looking Statements

Cisco.com

These presentation slides 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 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; 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; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters; natural catastrophic events; 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, 10-Q and 8-K. The financial information contained in these presentation slides 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 months ended October 29, 2005 are not necessarily indicative of Cisco's operating results for any future periods. Any projections in these presentation slides 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 presentation slides and the related conference call.

CISCO SYSTEMS

