

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 FY06 Financial Results Conference Call
Tuesday, August 8, 2006
1:30 p.m. PT**

Introduction

Hello participants and welcome to Cisco Systems' fourth quarter fiscal year 2006 financial results conference call. At the request of Cisco Systems, today's conference is being recorded. If you have any objections, you must disconnect at this time.

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

Great. Thank you, Martie, and good afternoon, everyone. Welcome to our 66th quarterly conference call. This is Blair Christie, and I'm joined by John Chambers, our President and CEO; Dennis Powell, Chief Financial Officer; Rick Justice, Senior Vice President of Worldwide Field Operations; Charlie Giancarlo, Chief Development Officer; and Jim McDonald, Chief Executive Officer of Scientific-Atlanta.

The fourth quarter and fiscal year 2006 press release is on First Call, First National Business Wire, the European Business and Technical Wire and on the Cisco website at www.cisco.com. If you would like a fax of the press release, please call 408-526-8890 and follow the instructions.

A corresponding webcast with slides and additional 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.

Throughout this conference call, we will be referencing both GAAP and non-GAAP financial results. Our non-GAAP financial results were previously referred to as pro forma in prior conference calls. Please note we have provided non-GAAP and GAAP reconciliation information in the slides accompanying this webcast, as well as on our website in the Investor Relations section.

Throughout our call today, we will provide both Cisco and Scientific-Atlanta financial information, in order to illustrate the impact of this acquisition on our overall Q4 and fiscal year 2006 results. Where we refer to Cisco standalone, the financial information represents Cisco's performance, excluding the results of this acquisition.

The financial results in the press release are unaudited. And 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 reports on Forms 10-K and 10-Q and any applicable amendments which identify important risk factors that could cause actual results to differ from those that are contained in the forward-looking statements. Unauthorized recording of this conference call is not permitted.

And I would now like to turn it over to John for his commentary on the quarter. John?

Thank you, Blair.

In this quarterly conference call, we are going to pilot a new way of presenting the information, based on requests from many of you. The first goal is to cut the time for the total narrative part of the conference call down, and second, to present the key takeaways for the quarter, as well as the revenue guidance for the next quarter in the opening comments.

The opening comments will be followed by a detailed, yet abbreviated discussion, versus prior conference calls, of the financials by Dennis. The third section of the call will focus on general 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 then I will wrap it up with some general comments in terms of Cisco's momentum going into fiscal 2007. And finally, our Q&A session.

This briefer format will be supplemented with more detailed information in the slides accompanying this webcast. This should leave room for more questions and answers at the end and still result in the calls becoming shorter, with the goal to reduce the time of the call by 15 to 30 minutes. We'd appreciate your view and constructive feedback to Blair and her team of this new approach.

Now onto the discussion of Q4. I would like to summarize this quarter as a very strong quarter and a record quarter from a revenue, net income, GAAP and non-GAAP earnings per share perspective. To put these record results in perspective, I will summarize the quarter highlights first from a key financial perspective, second from a geographic perspective, followed by customer segments, and fourth, products.

In this discussion and in future quarterly conference calls, we will discuss product growth and other key financials, primarily from a revenue perspective and use order growth rates to add color and momentum to the discussion. The geographic and customer segment discussions will be primarily in order growth numbers, as this is how we run our business.

The key financial highlights for Q4 include the following. Record revenue of approximately \$8.0 billion, a 21.3% year-over-year increase and a Cisco standalone increase of 12.5%, which was slightly above the high end of our guidance for this Q4 of 10 to 12% from a Cisco standalone perspective.

Order growth was very strong, with product book-to-bill comfortably above 1. The key takeaway here is that when you see our ending backlog for fiscal 2006, as published in our 10-K in September, we will have increased our Cisco standalone product backlog approximately \$700 million over the ending backlog of fiscal 2005. This increase was due almost entirely to the strong order growth in Q3 and in Q4.

Non-GAAP net income was \$1.9 billion, an increase of 15.1%. Non-GAAP earnings per share were a record \$0.30 and GAAP earnings per share were a record \$0.25. Cash generated from operations was approximately \$2.3 billion. We repurchased approximately \$2.8 billion of common stock. And we exited the quarter with approximately \$18 billion in cash, cash equivalents and investments.

From a Cisco standalone geographic perspective, momentum was strong from an orders perspective and balance was good across the five theaters during Q4. In fact, four of the five geographic theaters experienced stronger annual product order growth when compared to a very strong Q4 of last fiscal year, Europe being the one exception.

In spite of the slower GDP growth that occurred in the US in calendar Q2, and slower growth through some of our technology peers in their Q2, our business remained strong. In the US, orders grew in the upper teens year-over-year, while total worldwide orders grew in the mid-teens. As anticipated, we saw very strong order growth from the Emerging Markets theater of approximately 40% year-over-year. While in Europe we did see some improvement versus earlier in the fiscal year, with order growth slightly improving to the high single digits.

From a Cisco standalone product perspective, the balance was extremely good across routing, switching and advanced technologies. Routing revenue grew year-over-year by 12%. Switching revenue grew year-over-year by 8%. And advanced technologies revenue grew year-over-year by 23%.

Of the advanced technologies, storage area networking, unified communications, formerly known as enterprise IP telephony, and wireless led the way. We believe we are gaining market share versus almost all of our competitors. But we also believe we are getting a larger share of our customers' total spend on communications and IT.

From a Cisco standalone customer segment perspective, we saw continued strength in the commercial market, with product order growth of approximately 20% year-over-year. The service provider business remained strong, with standalone orders growing approximately 18%.

Scientific-Atlanta--congratulations, Jim, by the way--was above the high end of our guidance, with approximately 15% year-over-year revenue growth. From a momentum perspective, of particular interest in the service provider market was the very strong order growth rate of the CRS-1, comfortably exceeding the \$100 million mark per quarter order rate.

The US service provider segment continued at an extremely strong pace, growing in the mid-20s year-over-year from an order perspective. The global enterprise business was solid, with growth in the low double-digits, while our US enterprise orders grew in the mid-teens year-over-year, when not including the Federal business.

From a commentary perspective, we executed as we outlined in our Q3 call. We will always try to share with our shareholders, in a very transparent way, both our reasons for optimism and occasional caution. Going into Q4 we did share some caution and this concern appears to be appropriate, at least on a macro and general technology spending level.

However, from a Cisco perspective, the key takeaway on Q4 from a US perspective through a momentum remains strong. The commercial and service providers segments of the US maintained their very strong year-over-year order growth rates experienced in prior quarters by the US enterprise business grew in the mid-teens year-over-year.

The record results for Q4 are due in part to the successful implementation of our strategy, given our vision of how the communications and IT industry would evolve. As intelligence moves throughout the network, the network is becoming the platform that enables most forms of communications in IT. Our business and technology architecture approach to this evolution is gaining both market share results and share of total customer spend.

In terms of revenue guidance for the upcoming fiscal 2007, including our usual caveats discussed in prior calls, we project year-over-year revenue growth of approximately 15 to 20% and Cisco standalone revenue growth of 10 to 15%, which is consistent with our prior long-term guidance.

Our Q1 FY '07 year-over-year revenue guidance is for revenue growth of approximately 19 to 21% and Cisco standalone year-over-year revenue growth of 11 to 13%.

At this time I would like to turn it over to Dennis for further discussions of the financial highlights. Dennis?

Financial Overview

Thanks, John.

Now for some comments on our P&L. We are very pleased that revenue for both Cisco standalone and Scientific-Atlanta exceeded our expectations this quarter. The business was strong across geographies, product categories and customer segments. We enhanced our financial leverage with strong gross margins and improved operating expense productivity, resulting in solid growth in operating income.

Total revenue for the fourth quarter was \$8 billion, an increase of 21.3% year-over-year. Cisco's Q4 standalone revenue was \$7.4 billion, or an increase of 12.5% year-over-year. Scientific-Atlanta Q4 revenue was \$582 million, or 15.3% increase year-over-year for the comparable period, when aligned to conform to Cisco's fiscal quarter.

Scientific-Atlanta product revenue is categorized in the following Cisco product revenue segments; Video Systems, Home Networking, Optical, Other and Services. Routing revenue totaled \$1.65 billion, up 12% year-over-year. Switching revenue was \$2.83 billion, an increase of 8% year-over-year. Advanced Technologies totaled \$2.0 billion, including \$513 million of Scientific-Atlanta sales, representing a 65% increase year-over-year on a combined basis.

Advanced technology revenues not including Scientific-Atlanta grew 23% year-over-year.

As a reminder, beginning in Q1 FY '07, Optical will no longer be included in our advanced technology product category.

Service revenue was \$1.25 billion, up approximately 18% year-over-year, due to growth in our technical support, advanced service and Scientific-Atlanta businesses. Q4 total non-GAAP gross margin was 65.3%, down from 65.7% last quarter, resulting from the three-months' impact of Scientific-Atlanta, versus two months last year.

For product only, non-GAAP gross margin for the fourth quarter was 65.1%, down slightly from 65.3% last quarter. Non-GAAP product gross margins for Cisco's standalone and Scientific-Atlanta both improved sequentially. However, the inclusion of three full months of Scientific-Atlanta in Q4, versus two months the prior quarter slightly reduced combined gross margins as we expected.

Our Service margins on a non-GAAP basis for the fourth quarter were 66.3%, up from 65.2% in Q4 FY '05 and down from 67.9% last quarter. Non-GAAP operating expenses as a percentage of revenue were approximately 35% in Q4 FY '06, down from approximately 36% in both Q4 '05 and Q3 '06. Our Q4 FY '06 tax provision rate for the non-GAAP and GAAP results was 28%.

Non-GAAP net income for the fourth quarter was \$1.9 billion, compared to \$1.6 billion in the fourth quarter of fiscal year 2005, representing a 15% increase year-over-year. Non-GAAP earnings per share on a fully diluted basis for Q4 were \$0.30, up from \$0.25 in the same quarter of fiscal year 2005, representing a 20% increase year-over-year.

GAAP net income for the fourth quarter was \$1.5 billion. If we had included the FAS123 expense previously disclosed in our footnotes, Q4 '05 net income would have been approximately \$1.3 billion, representing a 22% increase year-over-year.

GAAP earnings per share on a fully diluted basis for the fourth quarter were \$0.25. Again, if we had included the FAS123 expense previously disclosed in our footnotes, Q4 '05 earnings per share would have been \$0.20, representing a 25% increase year-over-year.

Total revenue for fiscal year 2006 was \$28.5 billion, an increase of approximately 15% over fiscal year 2005 revenue of \$24.8 billion. Total Cisco standalone revenue for fiscal year 2006 was \$27.5 billion, an increase of approximately 11%.

Non-GAAP net income for fiscal year 2006 was \$6.9 billion, up approximately 14% from 2005 non-GAAP net income. And non-GAAP earnings per share on a fully diluted basis for fiscal year 2006 were \$1.10, up from \$0.92 in fiscal year 2005, representing a 20% increase year-over-year.

GAAP net income for fiscal year 2006 was \$5.6 billion. GAAP earnings per share on a fully diluted basis for fiscal year 2006 were \$0.89. If we had included the FAS123 expense previously disclosed in our footnotes, fiscal year 2005 GAAP EPS would have been \$0.71, representing a 25% increase.

Product backlog at the end of fiscal year 2006 was \$2.65 billion, excluding Scientific-Atlanta, compared with \$1.95 billion at the end of fiscal year 2005, an increase of \$700 million. In our 10K, we will report a backlog of approximately \$3 billion, which includes approximately \$400 million for Scientific-Atlanta.

Moving on to the Balance Sheet

Now moving on to the balance sheet.

The total of cash and cash equivalents and investments at the end of Q4 was \$17.8 billion, compared to \$18.2 billion last quarter and \$16.1 billion at the end of fiscal year 2005. During Q4, we generated approximately \$2.3 billion in cash flow from operations and used \$2.8 billion to repurchase 139 million shares of our stock at an average price of \$20.35.

For the full fiscal year 2006, we generated \$7.9 billion of cash from operations and used \$8.3 billion to repurchase 435 million shares of our stock at an average price of \$19.07. The remaining approved amount for stock repurchase is approximately \$4.6 billion.

Moving on to Accounts Receivable

Moving on to accounts receivable, we ended the quarter at \$3.3 billion, up from approximately \$3.0 billion in the previous quarter. The increase in accounts receivable was due to increased sales and the impact of linearity. At the end of Q4 FY '06, DSO, or days sales outstanding, was 38 days, compared to 36 days at the end of Q3.

Total inventory for Q4 was \$1.4 billion, up from \$1.3 billion last quarter, a change of \$58 million. Non-GAAP inventory turns were 8.3 times, up from 7.4 times last quarter and 6.6 times in Q4 FY '05. This increase in turns was due to the continued implementation of our lean manufacturing initiative. A breakdown of our inventory can be found in the slides that accompany this call.

Our inventory purchase commitments for Q4 were 2 billion, as compared with \$1.7 billion for Q3 and \$954 million for Q4 of the prior fiscal year. The year-over-year increase reflects the inclusion of \$295 million of purchase commitments for Scientific-Atlanta and the continuation transition to the lean manufacturing model. The rise in purchase commitments is also due to higher backlog on a year-over-year basis and longer lead times in the broader supply chain.

In response to longer lead times, we have increased our purchase commitments of certain component items for targeted high-demand products such as the CRS-1, 12000 series routers and the Catalyst 6000 switches.

Our total Q4 FY '06 reported headcount ended at 49,926, a net increase of 1,630 from Q3 and an increase of 11,500 year-over-year. The year-over-year increase is primarily due to the acquisition of Scientific-Atlanta and the additions in sales headcount.

In conclusion, we were very pleased with our performance, both on a fiscal year and a Q4 basis. We continued to maintain strong financial leverage, with non-GAAP operating income above 30% of revenue. We continued our strength in operating cash flow, generating \$7.9 billion for fiscal year 2006.

And finally, our strategy around the network as a platform is working really well and we are strongly positioned for the next year. I'll now turn it over to John.

Geographic Overview

That sounded like a great comment at the end, Dennis, that I would normally make. Anyway, nice job.

In this section of the call we will cover our geographies, customer segments and product review for Q4.

Unless specifically indicated, all comments in this section are for Cisco standalone only. In this section we are going to attempt to condense these areas versus what we've done in prior calls. And again, we welcome your feedback.

As a reminder, book-to-bill was comfortably above 1. It would be a safe assumption in almost all areas of this discussion that orders grew faster than revenues. From a geographic point of view, there are positives from all five of our theaters.

The US maintained its strong momentum, led by service provider and commercial, with order growth in the high teens or better. Enterprise was solid with order growth in the mid-teens, not including federal.

While this was clearly very good from an enterprise perspective, its run rate was down from approximately 20% in Q3 and Q2. We are obviously pleased with the Q4 enterprise growth rate, especially given the results of some of our peers in this customer segment.

Emerging Markets continued their strong momentum, with orders accelerating to approximately 40% year-over-year. Asia Pacific had another solid quarter with year-over-year growth of approximately 20%. China had a very solid quarter with order growth of approximately 40% year-over-year.

Europe momentum, as we said earlier, is slowly improving, with order growth in the high single digits, with commercial and service provider having good results, growing in low double-digits, while the enterprise grew in the mid single-digits level.

In Japan, after five quarters of year-over-year decline, Q4 was flat in terms of orders and year-over-year.

Customer Segments Overview

Now moving into the customer segment discussion.

To put the following into proper perspective, and as we reviewed in prior quarters, a rough rule of thumb is that the enterprise represents approximately 45% of our business, commercial and service provider slightly above 25% respectively and consumer 4%.

The Commercial market segment continues to lead the way as it has over the entire year, with order growth of approximately 20%. The Service Provider segment continued to gain momentum with order growth in the high teens and the Enterprise segment grew in low double-digits from a global orders perspective.

Balance was very good across all theaters in the commercial marketplace. Our commercial strategy, which is one of the areas where we made major investments across all functions, is continuing to achieve the results that we thought were possible with good execution.

We are also gaining market share versus almost all of our peers in the service provider market segment. As you would expect from the earlier comments, the Emerging Markets and the US theaters were the strongest in the service provider segment from an order growth perspective.

Of particular interest in our execution in the service provider market, was the expanding growth of our high-end routing products. The CRS-1 had a very strong quarter. Revenues were approximately \$80 million, increasing over 100% year-over-year. In Q4, orders for the CRS-1 comfortably blew through the \$100 million order milestone, increasing year-over-year by over 200%.

Scientific-Atlanta is another cornerstone of our architectural strategy for the service provider market. In positioning our acquisition decision of Scientific-Atlanta, we shared that their growth at the time of acquisition was approximately 10 to 12% range and that if the acquisition and synergies were effective, that growth potential was in the 12 to 14% range.

We were obviously very pleased with year-over-year revenue growth this quarter of approximately 15%. Of particular interest in this quarter was the shipment of 1.44 million digital set-top boxes, a 33% increase in units shipped versus Q4 of last year.

But perhaps of even more importance is the role that Scientific-Atlanta's video expertise plays in our service provider accounts, from a strategic business partner perspective. In summary, from a service provider perspective, our technology and business architecture strategy is moving Cisco from a tactical or a strategic technology partner for our service providers to a strategic business partner relationship in many of our accounts.

And while it is too early to say for sure, I would personally parallel this progress to a very similar evolution that Cisco achieved in the enterprise market in the mid-1990s. All of us understand the business results and strategic positioning in the enterprise accounts that Cisco has achieved since that time period.

The enterprise customer segment showed the most growth in our Emerging Markets, US and Asia Pacific theaters, with the European enterprise continuing to be challenging. We gained market share versus most all of our peers, in the enterprise market segment, in both product areas and geographies.

As you would expect, the strong results in advanced technologies, which are usually deployed first in enterprise accounts, again speaks to the success at both our technology and business architectural approach to the enterprise customer.

Product Overview

Moving next to the product discussion.

As a reminder, in this discussion and in future quarterly conference call product discussions, we will cover the products primarily from a revenue perspective and use orders to add color or illustrate momentum trends.

Revenue balance was very good across our core routing, switching and advanced technologies. And for the purpose of understanding our momentum, order growth was greater in each of these three areas than revenue growth.

Revenues for routers grew approximately 12% and switching grew 8% year-over-year. Advanced technologies grew by 23% standalone. That is not including any of Scientific-Atlanta's products.

Storage led the way with revenue growth of over 65% year-over-year, followed by unified communications growing approximately 50% year-over-year. Optical and wireless growing in the mid-20s from a revenue perspective, while the networked home and security group grew in single-digits from a year-over-year perspective.

Our technology architecture play with the convergence of layers 1 through 7 of the OSI stack, continues to gain traction and mindshare. For example, customers understand the leadership, total cost of ownership, flexibility and investment protection advantages they receive when they install a Cisco switch, as an example, which allows them to easily and cost-effectively add market leading voice, data, routing, security, wireless and other capabilities to their existing Cisco switch that they've just purchased.

This is a very powerful competitive differentiator versus all of our competitors, who are usually present only in one or two product categories and often do not loosely or tightly integrate their products from an architectural perspective.

Vision, Strategy, Execution

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

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

It is my pleasure now to turn the call back over to Dennis for a detailed discussion of the financials regarding our Q1 financial guidance for fiscal year 2007. Dennis, back to you.

Financial Guidance

Thanks, John.

Let me remind you again that our comments include forward-looking statements and you should review our recent SEC filings that identify important risk factors and actual results could differ from those contained in forward-looking statements. As a reminder, we are providing guidance on a non-GAAP basis with the reconciliation to GAAP.

I will be providing guidance for Cisco on a combined basis, including the effect of Scientific-Atlanta. You will also find the details of the discussion in the slides accompanying this webcast.

As John mentioned earlier, for the full fiscal year 2007, we anticipate that our annual revenue will increase by 15 to 20%, which reflects Cisco standalone growth of 10 to 15%. We anticipate revenue growth for the first quarter to be in the range of 19 to 21% year-over-year, which will reflect Cisco standalone growth of 11 to 13% year-over-year.

Regarding gross margin, forecasting gross margin has always been challenging, due to the various factors such as shipping, volume, product mix, variable component cost, customer and channel mix and competitive pricing pressures. We believe total gross margin will be approximately 65%, meaning it could be slightly above or below this level. This reflects the consistency of core Cisco and Scientific-Atlanta gross margins.

With the continued investment in our field and engineering organizations that John has discussed in this and previous conference calls, we believe Q1 operating expenses will be in the range of 36% of revenue. We expect interest and other income to be approximately \$150 million in the first quarter.

Our tax provision rate is expected to be approximately 26% for Q1 and for fiscal year 2007, a decrease from 28% in fiscal year 2006.

While we continue to expect our continuing share repurchase program, it is difficult to predict the exact weighted average shares that are outstanding. We are modeling share count to be flat to down 50 million in weighted average shares outstanding for EPS purposes. There could be increased volatility in the share count due to changes in the stock price, of course.

Regarding cash flow from operations, we would expect to generate between \$500 to \$700 million per month at these revenue levels. For our Q1 FY '07 GAAP earnings, we anticipate that Q1 GAAP EPS will be \$0.04 to \$0.06 per share lower than non-GAAP EPS, primarily due to acquisition-related costs and stock option expense. Please see the slides that accompany this webcast for more detail.

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

I'll turn the call back to John.

Summary

Thank you, Dennis, and thanks for raising the cash forecast.

We've been discussing that for a while and a healthy give and take I've been receiving on that.

The following is a summary of my views of Cisco's momentum and opportunities entering fiscal year 2007. In areas that Cisco can control or influence, our momentum is even stronger than it was a year ago. Four of our five theaters, as I said earlier, exited Q4 with business momentum greater than Q4 the prior year.

Our strategic value to our service provider customers is increasing, both from a technology and a business architecture perspective and has the potential to continue to expand this value even throughout this next year.

The integration of Scientific-Atlanta, I think, Jim, it's fair to say it's actually ahead of what both Jim McDonald and I would have anticipated it to be at this point in time. While success is still dependent upon solid execution, our role with Scientific-Atlanta in service providers has the potential to continue to expand in this next fiscal year.

The commercial marketplace remains very solid. And while we did see a slightly slower growth rate in enterprise, it too remains solid. Our European results are showing gradual improvement, with Germany and France potentially leading the way for the next year. It is too early to say if this trend will definitely continue. We continue, as many of our peers are also seeing, to experience some challenges in the UK, even though we have a very strong team in that country.

Japan, for the first time--and Rick, I guess it's a year and a half--appears to be slowly gaining momentum. The primary area that we will be focusing on in the next one to two years will be the next generation service provider network buildout. And while we've been working on them for a number of years in the past, we could start to see the volume in the second half of fiscal year '07 or the first half of fiscal year '08, occur if we're successful.

Asia Pacific continues to remain solid. Our architectural strategy in the 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 over twice the growth rates of the other four theaters, if we execute effectively.

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

Charlie, I think it's fair to say that our pipeline of potential new core routing and switching products looks very good. Our continued evolution of our first wave of advanced technologies and the emergence of a second wave of advanced technologies is evolving as expected. At the same time, we are beginning to plant a potential third wave with our early stage emerging technologies. In summary, our product pipeline is in excellent shape and it really looks exciting. Having said that, obviously the proof is in the results.

I was especially pleased with the market share gains across almost all of our product areas, given the challenges that many of our peers have experienced. The opportunity for continued market share gains looks reasonable. We see the same challenges and uncertainties from an economic and capital spending concern that many of you witnessed over the last quarter. We will focus on what we can control and influence and attempt to position Cisco to gain momentum in market transitions whether they are industry consolidation, product transitions or economic.

In summary, for those areas that we can control, we believe our vision, strategy and execution are in great shape entering fiscal year 2007.

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 occasionally, challenging economic times.

Now Blair, I'd like to turn it back over to you.

Closing Remarks

Thank you, John.

We'll now open the floor to Q&A for the audience. We still request that sell-side analysts please ask only one question. And as a reminder, our goal is to end the call a bit earlier than we have in the past, today. Operator, could you please open the floor to the first question?

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 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 including the businesses and technologies of Scientific-Atlanta, Inc.; 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, 10-Q and 8-K. 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 report on Form 10-Q and report on Form 8-K filed on February 10, 2006, each as it may be amended from time to time. Cisco's results of operations for the three and twelve months ended July 29, 2006 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.