

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.
Q3 FY08 Financial Results Conference Call
Tuesday, May 6, 2008
1:30pm PT

Introduction

Welcome to Cisco Systems third quarter fiscal year 2008 financial results conference call. At the request of Cisco Systems, today's conference is being recorded. If you have any objections, you may disconnect.

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

Thank you, Kim, and good afternoon, everyone. Welcome to our 73rd quarterly conference call. I'm Blair Christie, and I'm joined by John Chambers, our Chairman and CEO; Frank Calderoni, Chief Financial Officer; Rick Justice, Executive Vice President of Worldwide Operations and Business Development; as well as Don Proctor, Senior Vice President of our Software Group; Ned Hooper, Senior Vice President of Corporate Development, Consumer and Small Business Group; and Jim McDonald, Chief Executive of our Service Provider Video Technology Group.

The Q3 fiscal year 2008 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. I would like to remind you that we have a corresponding webcast with slides. In those slides, you will find the financial information we cover during the conference call, as well as additional financial metrics and analysis that you might find helpful. Additionally, downloadable Q3 financial statements will be available following the call, including revenue segment by product and geography. Income statements, full GAAP to non-GAAP reconciliation information, balance sheets and cash flow statements can be found on our website in the Investor Relations section. Just click on the Financial section of the website to access the slides and these documents.

A replay of this call will be available via telephone at 866-357-4205, or 203-369-0122 for international callers, and is available from May 6th through July 18th on Cisco's Investor Relations website. Again, at www.Cisco.com/go/investors.

Throughout this conference call, we will be referencing both GAAP and non-GAAP financial results. The financial results in the press release are unaudited. In 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 annual report on Form 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 at this time, I would like to 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 Q3, an update on why we continue to be comfortable with our long-term growth projections of 12 to 17%, and our revenue guidance for the next quarter, with the appropriate caveats.

The opening comments will also include discussions on what we believe is driving our current growth, as well as what we think will be the key factors that we expect should allow us to continue to maintain solid long-term growth rates over the next three to five years. In those areas that we can control or influence, we feel very comfortable with our continued progress during the quarter. Our vision, differentiated strategy and our execution is developing the way we anticipated.

I am particularly pleased with our innovation engine from a product, architectural and thought leadership perspective. We are better positioned with our Enterprise and Service Provider customers, from a customer satisfaction, technology and business architecture perspective than we've ever been. We will be providing additional discussion points on the progress of this innovation leadership later in the call. Frank will follow these opening comments with additional detail of Q3. And Frank, it's nice to have you with us. Congratulations again.

The third section of the call will focus on an expanded discussion of business momentum and strategy on a geographic, product, and customer segment basis. We will then introduce a fourth section around our innovation strategy and leadership. Frank will follow with additional financial parameters around our guidance for Q4. I will then wrap it up with some comments in terms of Cisco's momentum going into Q4, and finally our Q&A session.

Now, on to the discussion of Q3. This quarter was another solid quarter, given the challenges we are all witnessing in the market, with reasonable balance from a product, geographic, and customer segment perspective. To put these record results in perspective, I will summarize the quarterly highlights first, from a key financial perspective; second, from products and services; third, from a geographic point of view; and fourth, by customer segment.

The key financial highlights for Q3 include the following. Total revenue of approximately \$9.8 billion, a 10.4% year-over-year increase, which was above the midpoint of our guidance of approximately 10% provided in the Q2 conference call. We are reasonably comfortable with the growth of the top line, and pleased with the growth on the bottom line and earnings per share. Order growth was reasonable and within our expectations. Product book-to-build was greater than 1.

Non-GAAP net income was \$2.3 billion, an increase year-over-year of approximately 9%. GAAP net income was \$1.8 billion, representing a decrease of 5%, as a result of a charge of \$246 million or \$0.04 per share recorded during the quarter relating to the intent to purchase remaining interest in Nuova Systems that was excluded from our non-GAAP net income. Non-GAAP earnings per share was \$0.38 and GAAP earnings per share were \$0.29, which were increases of 12% and a decrease of 3% respectively, year-over-year.

Cash generated from operations was \$3 billion. We repurchased \$2 billion of common stock, and we exited the quarter with \$24.4 billion in cash, cash equivalents, and investments, as compared to Q2 FY '08 number of \$22.7 billion.

However, if there are four key takeaways from our Q3 results, the first would be the continued unique balance in terms of our business models. This balance is illustrated across 20 major product families, four key customer segments and five geographies. As an additional point of interest, Japan had a very strong quarter for the first time in a number of years. The reason for this is very simple. In Japan, we are beginning to see the second phase of next generation network buildouts from our Service Provider customers and the new momentum being created from our organization changes there.

The second takeaway from the quarter is built around market transitions, which is a core competency for Cisco, our ability to develop a vision of how the market transitions play out for the industry and position Cisco in terms of our sustainable differentiation in industry leadership.

The third key takeaway, which is just beginning, and in my opinion will drive our growth and differentiate us from our peers over the next five-plus years, will be phase two of the Internet. We expect this second

phase will be driven by collaboration enabled by network Web 2.0 technologies.

In the past several quarters, we believe we have achieved the number one position, both from a thought leadership and an implementation perspective, and we intend to expand that position.

This collaboration enabled by network Web 2.0 technologies, will in our opinion, transform business models with a speed we have not seen in over a decade. Whether it is the Service Providers' potential increase in network loads driven by Web 2.0 technologies or the Commercial or Enterprise customers who see the next wave of productivity occurring, we are continuing to see an increased acceptance of Cisco's business and technology architectural strategies and differentiation versus our industry peers.

While we are still at the very beginning of the second phase of the Internet, in my opinion, we saw the most evidence in Q3 of our customers' commitment to a partnership with Cisco built around collaboration and networked Web 2.0 technology. These customers include countries, Service Providers and Enterprise customers. Our customers understand the correlation of collaborative applications with any device to any content in any mode, any time, anywhere, combined with intelligence, moving from both the application and services layers into the intelligent network. These are complicated concepts, but our customers are starting to recognize what this means to them and therefore, why Cisco can be both their communications and IT partner in a way that we believe no other company can.

In Q3, I had the chance to witness again and again this market transition in regards to Cisco's role in the customers' future, in key customer meetings, and in conferences in many countries around the world. Just to give you a feel for the areas where I experienced this activity in the first half of the calendar year, including extensive travel throughout the U.S., trips to China, Spain, Switzerland, Saudi Arabia, Dubai, Abu Dhabi, Qatar, Israel, Palestine, France and two trips to Germany. In addition, this includes over three dozen around the world TelePresence meetings.

From a country perspective, whether it is on the topic of job creation opportunities, healthcare, new economic cities, Cisco's role as their infrastructure partner, advisor on green initiatives, or the role Cisco plays in assisting in their global competitiveness, our vision, strategy and execution appears to be playing out as we envisioned. And as we become the trusted advisor and implementation engine for the business and government leaders, we can also get the growth for our business that accompanies this leadership position. As proof points, Q3 year-over-year growth in India was in the mid teens and China was in the high 30s. In India, that follows a Q2 with 50% growth.

Fourth is a topic centered on our innovation leadership. In this call and in future conference calls, I will share with you our progress in innovation and on product architectures, process change and thought leadership. We believe Cisco is truly an innovation machine, a topic that we will summarize later in the call. Being very candid, until recently, some shareholders might have viewed Cisco's innovation in just a few product areas and our acquisition capabilities. However, this quarter was truly an exemplary quarter in terms of the breadth and depth of our innovation leadership across all aspects of our business.

Revenue growth from our key products, including services, was good, with reasonable balance across categories. In terms of our three broad product categories, routing revenue in Q3, grew year-over-year by 14%, led by high-end routing products, which grew in the mid 20s year-over-year. Switching revenue grew year-over-year by 3%. And the total of all of our advanced technology revenues grew year-over-year by approximately 17%.

Again, in considering our ability to move into new markets to achieve both growth and profitability, our total advanced technologies' revenue was approximately 20% greater than our revenue from our routing products. This speaks to Cisco's balanced product portfolio and our constant evolution of moving into new markets and product adjacencies.

About one year ago, we signaled our focus on services as a major product. We felt this would be both a rapid growth opportunity, with very good gross margins, and a key to our customers' successful implementation of both our technology and business architectures. While product orders will fluctuate up

and down, based upon many factors, service revenues tend to be more consistent and have a more predictable pipeline over a longer period of time. Service revenues for this quarter grew in the mid-teens, and given our efforts to expand the scope of our service offerings, with the proper execution, there is no fundamental reason why revenues in services in the future could not grow in the 20%-plus range from a year-over-year perspective. These service revenues are beginning to approach one-fifth of our total business.

Although we will discuss growth in a number of products in more detail later in the call, I want to provide a quick snapshot from a revenue perspective of eight of our product highlights from Q3, from a year-over-year perspective.

The CRS-1 grew approximately 150%. Unified Communications, including contribution from WebEx, grew approximately 45%. Fixed Switching grew at 11%. WebEx, Don, congratulations to you and Doug and the team, grew approximately 20%. Security, including IronPort, grew in the low double-digits. High-end routers in total grew approximately 25%. Application networking grew approximately 30%. And TelePresence orders grew over 1,000%, granted off a relatively small base.

This product leadership has also gained the recognition in terms of industry awards as well. As an example, just last week, Interop awarded Cisco the 2008 Best of Interop Awards for two major product categories; the Cisco Nexus 7000 series was the recipient of the Interop 2008 Product of the Year award for the IT infrastructure category, and the Cisco Wide area Application Engine and the Cisco Wide Area Application Services Software were awarded for application optimization.

We continue to achieve reasonable product balance, both in terms of breadth and depth of our product portfolio. We now have 11 product families with order run rates above \$1 billion, and many of them continue to gain share in the respective product categories. Although competition remains robust, we believe we are maintaining leadership versus many of our major competitors in many product families. And we also believe we are getting a larger share of our customers' total spend on communications and IT.

The next section, focusing on geographic and customer segments, will be discussed primarily in terms of orders, as this is how we run our business. From the geographic theater perspective, our order momentum was mixed in Q3, with year-over-year order growth rates from mid single-digits to mid-20s, year-over-year.

Asia Pacific, which includes India and China, continue to be very solid-- congratulations, Owen and team, with growth in the high teens. Japan was very strong, as mentioned earlier, and grew in the mid-20s. Europe grew approximately 14% in Q3, up from 8% in Q2. The U.S. did experience the challenges we expressed during our Q3 guidance. U.S. growth was in the mid single-digits in Q3.

Emerging market sales, as we've shared in many prior calls, tends to be very lumpy. As a reminder, we do not include in the Emerging market theaters, China, India or other Asian countries. The revenues for our Emerging markets theater for this quarter grew over 40% year-over-year, while orders grew approximately 10%. In anticipation of your questions on order growth, service order growth was above 30% year-over-year and product order growth was in the 9% range year-over-year.

From a customer segment perspective, we saw global commercial orders growth in the 18% range; Enterprise growth in the 9% range; Service Provider growth in the 6% range; and Consumer/Linksys segment growth in the 13% range year-over-year. I cannot overemphasize the importance of leading in market transitions, whether it's as basic as moving from products to solutions, or as complex as evolving from plumbing to the network enabling all forms of IT and communications, while at the same time translating what these transitions mean to Cisco in terms of our growth and industry leadership.

This ability to understand market transitions, whether they are technology or business model based, has been one of the key contributing factors to our success. Over the last two decades, we have routinely seen dramatic growth from our investments and market transitions, whether it's in our advanced

technologies starting five years ago, Emerging countries two years ago, our Globalisation Center in India over a year and a half ago, to now expanding to our commitments to the China market over the last two quarters.

At the beginning of this fiscal year, we shared with you our aggressive implementation of new technology and new business models, based on collaboration enabled by networked Web 2.0 technologies. Instead of doing one or two cross-functional priorities a year, as we did very successfully in our traditional command to control approach, we can now focus on 22 priorities, with a collaborative structure and replicable business process, driven by our councils and boards. These smaller social/business networking teams are moving faster than we could in the command to control structure and are enabling our ability to move into new market adjacencies with the speed and effectiveness that we would not have been able to do before.

When you think about our long-term growth opportunities, there is no more important market transition than this revolutionary business model. And as we have been pleased with the progress and results through the first two quarters of the fiscal year, this is one of the key reasons that in spite of what happens on a macroeconomic or other issues in the short-term, we remain comfortable with our long-term growth projections.

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, and other factors, as we discussed in our financial reports.

For purposes of our long-range guidance, as well as our quarterly guidance, we are also assuming that our vision of how the industry and the market will evolve will be accurate and we will effectively execute on that vision. Therefore, we continue to believe, with the appropriate caveats, our long-term guidance should be in the 12 to 17% range year-over-year.

While at the risk of stating the obvious, and as we have said repeatedly in prior conference calls and we'll continue to say in future conference calls, there may be times when our revenues grow above this range and there definitely will be times when our revenues grow below this range.

While we continue to be extremely comfortable with our vision and differentiated strategy, and the value that intelligent networks will bring across all of our customer segments and geographies, we also see the economic challenges that the U.S. is experiencing. Our customers in many of the Emerging countries, such as India, China and the Middle East, remain very optimistic about business momentum. However, we are continuing to see our U.S. and some European customers remain cautious in their views about their own economies.

Therefore, our revenue guidance for Q4 fiscal 2008, including our usual caveats as discussed earlier and in our financial reports, is for revenue growth of approximately 9% to 10% year-over-year.

As a reminder, during each of the economic slowdowns in the past 15 years, Cisco has always navigated through them very smoothly, as we did repeatedly in 1993, 1997, 2001, 2003, and in each scenario, we gained both market share and in my opinion, profit share. And as a result, we were better positioned coming out of the transition versus our peers. We will continue to be aggressive in our investments during this slowdown.

In terms of the economic transition that may be going on, we believe that our strategy and the critical role the network plays in enabling all forms of communication and IT, is right on target. Secondly, with all the appropriate caveats, our best estimate is that this is a relatively short-term challenge going forward. Cisco will use these bumps as a chance to expand our share of customer spend and to be aggressive about moving into new market adjacencies. Whether we will return to our longer-term growth targets of 12 to 17% in several quarters or a little longer, is yet to be determined.

For those areas that we can control or influence, as I said earlier, I am very optimistic of our ability to

achieve the desired business results, both in the short-term and in the long-term. For areas outside of our control or influence, including the broader macroeconomic environment, we will share with you what we are seeing to the best of our ability, just as we have done in the past during our quarterly conference calls.

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 networked Web 2.0 technologies. We will do our best to provide the product architectures and the expertise to help in the implementation of these collaborative capabilities, from both a technology and a business perspective. We will also share with our customers how we have done this internally.

In short, we are going to attempt to execute the strategy over the next decade that is very similar to what we did in the early '90s, and as we said before, it powered growth for Cisco and for productivity for the next decade. Except with the obvious difference of this time being a company that is now approaching \$40 billion in sales and over 65,250 employees focused on this opportunity.

At this time, I'd like to turn it over to Frank, for further discussion of the Q3 financial highlights. Frank?

Financial Overview

Thanks, John. We are pleased with Cisco's solid results this quarter.

Total revenue for the third quarter was \$9.8 billion, an increase of 10.4% year-over-year, above the midpoint of our guidance. Routing revenue continued to be strong at \$2 billion, up 14% year-over-year, due primarily to continued growth in our high-end router portfolio at 26% year-over-year, with particular strength in the CRS-1 and the 7600 product families.

Switching revenue was \$3.2 billion, an increase of 3% year-over-year, driven by growth in our fixed switching portfolio. Advanced technologies revenue totaled \$2.4 billion, representing an increase of 17% year-over-year, led by strong performance in Unified Communications and Video Systems. Other product revenue totaled \$569 million, an increase of 3% year-over-year.

Total Service revenue was \$1.6 billion, up approximately 15% year-over-year, as a result of solid growth across all geographies. We are particularly pleased with growth in Advanced Services, which was 35%.

Total revenue growth by geography grew in the range of 5% year-over-year in the US and Canada, to a high of 44% in Emerging Markets. Emerging Markets revenue growth was higher than the order growth that John reported, due to increased shipments and revenue recognition of previously deferred revenue.

Q3 total non-GAAP gross margin was 65.4%, approximately flat quarter-over-quarter and up 0.9 points year-over-year. For product only, non-GAAP gross margin for the third quarter was 65.9%, flat from last quarter.

And our non-GAAP Service margins for the third quarter were 62.7%, down from 63.5% last quarter. Service margin will typically experience some variability over time, due to various factors, such as the changes in mix between Technical Support Services and Advanced Services, as well as the timing of Support contract initiations and renewals.

Total gross margin by geography ranged from 64% for Emerging Markets, to 70% in Japan.

Non-GAAP operating expenses as a percentage of revenue, were approximately 36% in Q3 fiscal year '08, up from 35.2% in Q3 '07. Foreign exchange impact for the quarter was \$88 million, which added approximately 0.9 of a point to the ratio. Excluding foreign exchange, non-GAAP operating expenses for Q3 grew at 10% year-over-year, balanced with revenue growth.

Interest and Other income was \$168 million for Q3, lower than our guidance of \$200 million. This was due to macroeconomic conditions, which resulted in lower gains from the sale of fixed income and public equity investments. We remain pleased with the high quality and conservative risk profile of our investment portfolio. Our Q3 FY '08 non-GAAP tax provision rate was 24%.

Non-GAAP net income for the third quarter of fiscal 2008, was \$2.3 billion, compared to \$2.1 billion in the third quarter of fiscal year 2007, representing a 9.4% increase year-over-year. Non-GAAP earnings per share on a fully diluted basis for the third quarter, was \$0.38, up from \$0.34 in the third quarter of fiscal year 2007, or a 12% increase year-over-year.

GAAP net income for the third quarter was \$1.8 billion, as compared to \$1.9 billion in the third quarter of fiscal year 2007. GAAP earnings per share on a fully diluted basis for the third quarter, were \$0.29, down from \$0.30 in the same quarter of fiscal year 2007.

Consistent with previous disclosures in our SEC filings, a charge of \$246 million or \$0.04 per share was recorded during the quarter, relating to our intent to purchase the remaining interest in Nuova Systems, which was excluded from our non-GAAP net income.

Moving on to the balance sheet

The total cash, cash equivalents and investments at the end of Q3, was \$24.4 billion, up \$1.7 billion from Q2. During Q3, we generated \$3 billion in cash flow from operations, as well as \$336 million in proceeds from stock option exercises. We repurchased \$2 billion of common stock, or 83 million shares of our stock, at an average price of \$24.04 per share.

Moving on to accounts receivable

We ended the quarter at \$4.2 billion, which was flat from Q2. At the end of Q3, days sales outstanding, or DSO, was 39 days, the same as was in Q2. Both Q2 and Q3 include the effect of several large multiyear Service agreements, which has increased the DSO in each quarter by 3 to 4 days.

Total inventory at the end of Q3 was \$1.3 billion, approximately the same level as in Q2. Non-GAAP inventory turns improved from 10.5 last quarter, to 10.7 this quarter. Our inventory purchase commitments at the end of Q3 were \$2.7 billion, relatively flat from the end of Q2.

Deferred revenue was \$8.6 billion in Q3, an increase of \$607 million from Q2, and \$2.3 billion from Q3 FY '07. Deferred product revenue was \$2.9 billion, up \$201 million from last quarter, and deferred service revenue was \$5.7 billion, up \$406 million from last quarter, due to the addition of several large multiyear Service contracts.

At the end of Q3, our head count totaled 65,225, a net increase of approximately 1,100 from Q2 FY '08. Our head count increases were primarily the result of Cisco hires in Engineering, Sales, and in Services.

Summary

In conclusion, I am pleased with our performance for the third quarter of the fiscal year, enabled by our portfolio management, approach to innovation, a broad and growing global footprint, and a team dedicated to outstanding execution. Our ability to deliver solid financial results with excellent cash flow and a strong book-to-bill during a quarter of somewhat uncertain macroeconomic conditions, illustrates the power of our business model. We will continue to invest in our diversified technology portfolio, while maintaining our proven focus on profitability, in order to take advantage of market transitions and drive toward our long-term growth target of 12 to 17% over the next three to five years.

I'll now turn the call back over to John.

Geographic, Customer Segment, Product and Strategy Review

Thank you very much, Frank.

In this section of the call, we will cover our geographies, customer segments and products review for Q3 in more detail. The products review will be in revenue growth terms, while the geographic and customer segments will be discussed in terms of orders, unless otherwise indicated.

Geographic

First, from a geographic and a customer segment point of view: There were a number of positives from our five theaters and customer segments.

The Asia Pacific Theater continued very solid momentum in Q3, with year-over-year growth in the high teens. The Asia Pacific organization had the best balance across each of the customer segments, with the enterprise, not including public sector, service provider, commercial and consumer markets all growing from high-teens to approximately 30% year-over-year. *[NOTE: During the question and answer session of the conference call we inadvertently transposed the growth rates in the service provider customer segment for Asia Pacific and Emerging Markets. Actual growth in the service provider customer segment in Asia Pacific was 26% year over year and actual growth in the service provider customer segment in Emerging Markets was 17% year over year.]*

The public sector, which tends to have large orders and to be lumpy in terms of when the orders occur, decreased year-over-year.

India and China, the two largest countries in the theater, continue to lead the way from a growth perspective. As we discussed in prior calls, our Globalisation Center in India, led by Wim Elfrink, is achieving at the high end of our expectations, as it relates to both growth in India and throughout the Emerging Markets.

We are now rated as the number five best place to work in India, when only two years ago we were not even on the list. After an extremely strong Q2 in India, with growth of approximately 50% year-over-year, we were pleased with the growth in the mid-teens in Q3, year-over-year-- our momentum in India continues to be very strong.

We were very pleased with the growth year-over-year in the high 30s, in China in Q3. Just last month, I spent a week in China and I had the opportunity to meet with a large number of business, government and academic leaders from throughout the country. My key takeaway was that these investments will likely achieve our desired goal and opportunities in China.

Our growth in China generally has been strong over the last two quarters, as we made the decision to dramatically expand our commitment and our goals in China over the next five years. We believe we are uniquely positioned with business and government leaders, as well as the citizens, to create a major win-win scenario across multiple segments of their economy.

The Emerging countries in our Asia Pacific operations, which we do not include in our Emerging Market Theater, as I said earlier, has the potential to achieve growth very similar to the Emerging Market Theater if we execute effectively.

Moving on to Japan. I want to congratulate our Japanese team on their very solid Q3 results, with growth in the mid-20s. This is the first time in 15 quarters we have grown above 20% year-over-year.

We think there are two major factors contributing to this. The first is the long-awaited build-out of the next generation networks. And remember, the Japanese were the ones that led on a global basis, with the first generation of next generation networks.

And the second is the evolution of the leadership team under Edzard Overbeek, which is really starting to show the results across all customer segments. Edzard, nice job.

Moving on to Europe. Our European operations had order growth in mid-teens in Q3 year-over-year. The Enterprise market, not including public sector, had a strong quarter with growth in the mid-teens. The commercial market continued to be solid, with growth in the mid-20s. The consumer segment, off a small base, grew by approximately 30% year-over-year.

The service provider segment continued with just modest growth in the mid single-digits. As we discussed in last quarter's call, I was particularly optimistic about the opportunities in Germany, and I would like to congratulate the German team for their strong quarter, with growth in the mid-20s year-over-year.

For the U.S., order growth was approximately 5% year-over-year; balances across our customer segments were mixed. The commercial market grew in the low-teens. The enterprise grew in the mid single-digits, not including our federal business. The federal group had a very strong growth of approximately 20%. The consumer grew approximately 6%.

However, we did see some challenges in the service provider customer segment which had grown 12 quarters in a row at over 20%. While orders in service providers do tend to be relatively large and sporadic, we had some major successes in Q3 from companies such as our partner AT&T, and emerging service providers. Our growth from our cable customers and other U.S.-based major wireline players combined was actually down approximately 3%.

From a U.S. geographic enterprise discussion, while orders grew in the mid single-digits, in other words across all the geographic enterprise areas, balance was good across these six enterprise areas, with growth ranging from 4 to 10% in Q3 year-over-year. Commercial growth was also reasonably balanced.

Emerging Market orders, where both orders and revenues tend to be lumpy in Q3. In Q3, revenue growth in the Emerging Markets was 44%; however product order growth was approximately 10% year-over-year.

Growth was reasonable in the service provider, commercial and consumer segments, ranging from the mid-teens to mid-20s from a year-over-year perspective. *[NOTE: During the question and answer session of the conference call we inadvertently transposed the growth rates in the service provider customer segment for Asia Pacific and Emerging Markets. Actual growth in the service provider customer segment in Asia Pacific was 26% year over year and actual growth in the service provider customer segment in Emerging Markets was 17% year over year.]*

The enterprise sector was down in the low-teens year-over-year. Latin America was a standout in the four areas. It had very strong growth, above 25% year-over-year.

Products

As discussed earlier, our product business was balanced. We will attempt to give you more details regarding this balance in the following discussion, which will be covered in terms of revenue and will include our acquisitions.

Total revenue growth in routers was 14% year-over-year, with the majority of the strength occurring in the high end, where growth was in the mid-20s. The CRS-1 again led the field with growth of over approximately 150%. Switching revenues were mixed with the fixed switching product groups growing in the low double-digits year-over-year. Modular switching was slightly negative, due in part to the hesitation

when new products are introduced, such as the Nexus 5000 and Nexus 7000. Balance was good, although we would like to have had more in our advanced technology group.

Security grew approximately 11% year-over-year, and security includes products from our IronPort acquisition. Unified Communications, including products from our WebEx acquisition, grew approximately 46%. Wireless grew approximately 7%. Storage grew at 5%. And networked home grew at 4%.

The second wave of our advanced technologies group, year-over-year, grew approximately 12%, with application networking services growing approximately 30% and video systems growing approximately 9% year-over-year.

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 our differentiated 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 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.

Innovation Strategy

In this next section, I'd like to share with you something focused on innovation. And I want to take a few moments to share with you why I believe Cisco is a key innovation leader, and why this is also very important for driving our long-term growth.

Innovation is at the forefront of corporations and governments' global focus in driving job growth, growth of their economies and the standard of living of their citizens and of their countries. We believe the core ability to deliver innovation will be enabled by intelligent networks, as the network becomes the platform for delivering all forms of communications and IT, to enable these new and rapidly evolving business models.

In this section of the call, I will focus on how Cisco innovates and how we are positioned in my opinion, to lead in the high-tech industry and in innovations. I will break the discussion into the following eight areas of innovation:

First, product innovation. This is the traditional way that many people look at technology companies.

Second, business models. And I'm really talking about new business models, which I believe will be the future of how technology should be viewed, as enabling innovation for our customers.

Market transitions will be the third, and we believe that innovation should be based upon timing of these market transitions and then leading in the transitions, as opposed to the traditional definition of innovation being viewed as what you did compared to your competitors.

Technology architectures, which we believe will be the way that the industry evolves, will be moving from boxes and software operating systems, ASICs and services, being independent pieces to the future of technology architectures, where literally the network becomes the platform for all of IT and communications.

Business architectures are where we begin to focus on a total architectural solution to achieve the top business priorities of our customers. The intelligent network enables these solutions.

As an example of how Cisco innovates in terms of our business top priorities is how we use collaboration and networked Web 2.0 technologies to implement our strategies across 22 cross-functional priorities. Another example would be how we partner with countries to build their economic cities of the future.

Productivity innovation is the sixth area. In many ways, Cisco led Phase I of the Internet and internal utilization with the resulting productivity increases for both ourselves and our customers. We expect the business models, enabled by collaboration and networked Web 2.0, will drive a very similar, almost an instant replay in Phase II of the Internet. It is this type of productivity opportunities that will cause, in our opinion, the investments in our industry to increase over the next three to five years.

Entertainment innovation will be based upon visual networking and will change everything from the way we interface between our family and friends, to how we watch sporting events with our community, with common interests, to creating our own entertainment with different social networks. We are now moving rapidly in these market areas and may over time focus with our partners on how this will change business models, including advertising.

And finally, eighth is organizational evolution. Perhaps the most fundamental form of innovation in this market is what Cisco is leading in moving from the traditional hierarchy of a command and control approach, to a collaborative and teamwork approach, enabled by network technologies.

At this time in the call, I'd like to focus on two areas of leadership and innovation. First, is product innovation and second, new business models.

From a product innovation perspective, we delivered the following new product innovations in Q3. I think it is safe to say that Cisco's innovation machine has never operated at a faster or more effective pace, although there is always room for improvement. Supporting this position would be the major product family and capability innovations that I'm about to cover.

In Q3, the ASR 1000, it really is the leading edge product in terms of hardware, software, ASICs and revenue generation for our service provider customers at the edge. It's the most powerful compact router ever to address the edge and to put it in perspective, 160 times more processing power in many ways, than its predecessor.

Instant service delivery means activating with a keyboard, not a truck roll, something that we all understand the importance of in the service provider environment. It also contains the most complex ASIC design in history for a network product. There are literally 800 million transistors on the chip. And for a point of comparison, the CRS-1 was a prior leader with over 180 million transistors on its key architecture; Also, operating costs and environmental impact of approximately one-third of the prior comparable systems.

The Nexus 7000 -- and when you think about the Nexus 7000, think of it as the first in a new generation of unified fabric data center switches. It enabled migration from 10 to 40, to 100-gig, with a simple I/O upgrade, with full redundant hardware, where there is never a single point of failure.

We also introduced the Nexus 5000, the industry's first open standard based access layer switch to support I/O consolidation at the rack level. It represents over three years of collaboration with Nuova Systems, illustrating the power of our build, buy or partner innovation model. It has the highest density copper rack switch available and uses the same operating system as the Nexus 7000, which broadens our data center leadership.

The Applications Extension Platform on the ISR is a mouthful, but what it really is, is the programmable feature for our ISR router, where third party developers can create applications on the ISR. This builds up the momentum of this important platform, which has, by the way, shipped its 4 millionth ISR router this quarter.

The fifth major product deliverable this quarter is the Business-to-Business TelePresence. New Business-to-Business TelePresence capabilities are just being delivered and it really opens up the market opportunities for our customers.

In addition to receiving the 500th TelePresence order during the quarter, we have developed strategic relationships with premier global service providers to begin offering inter-company TelePresence. These are done with AT&T in the U.S. and BT in Europe. We have now deployed internally over 200 TelePresence systems around the world and conducted over 100,000 meetings.

WebEx launched its new version of WebEx products for the Mac users and along those lines, the upcoming software version 2 for the iPhone incorporates Cisco's VPN technology. Our collaborative solution that integrates the WebEx product with our Unified Communications suite, including the UC Manager, IP Phone, TelePresence and Meeting Place, began shipping.

The final stage of beta for the next generation platform of WebEx, will include a next generation collaboration workspace, and will enable business mash-ups. Don, the team's really executing very well. Congratulations.

In the area of collaboration and networked enabled Web 2.0, our product innovation is centered on where the market is going, not where it is today. For example, many people think of Web 2.0 as data services, but in fact, what we believe will enable Web 2.0 to achieve its potential, is the evolution of data services into voice services and then to combine the next evolution into video services. We would call this combination of voice, video and data, in terms of Web 2.0 services, Visual Networking.

So when you think about Cisco's approach, think about us enabling a large part of the collaborative applications ourselves with our partners, bringing the combined capabilities of video, voice and data together to any device, and any combination of networks into our customer segments, evolving from the area of personalization to one of communities, information and people. Instead of viewing collaboration as just Unified Communication, it's really about Visual Networking, Unified Communications, WebEx capability, IP Telephony, TelePresence and other technologies that together enable collaboration.

Next is new business model innovation at Cisco. We are the first implementing entirely new business models in each functional organization enabled by collaboration and networked enabled Web 2.0. An example would be our services delivery model that we started under Wim Elfrink's leadership in our Bangalore site to deliver services virtually around the world.

Second would be the cross-functional business and social networking communities and the processes, vocabulary and best practices that go behind this to allow our company to go from one or two major cross-functional priorities to today's 22, and doing this in literally a one-year cycle. And then to use these productivity benefits enabled by new business models, to either bring the results to the bottom line or to use these resulting assets to enter new market adjacencies.

In summary, while in this conference call and future conference calls we often discuss each product or customer segment, I would argue that real innovation is about how you combine all of these very complex but manageable approaches, where each form of innovation is at first loosely, and then over time, tightly coupled to the other. Again, at the risk of being aggressive in our positioning, I think Cisco is the only company that is addressing the market on this broad front, with a history and a track record of leading each category when we move into market adjacencies.

It is this overall innovation machine that we are building at Cisco, which will not only differentiate ourselves versus our peers, but which we believe will allow us, with the appropriate caveats, to achieve our 12 to 17% long-term growth objective. I would encourage you to give us your feedback on innovation being an area and interest for additional discussion on future calls.

Now Frank, I'd like to turn it back over to you for additional guidance on Q4.

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.

Total revenue growth for the fourth quarter is expected to be in the range of 9 to 10% year-over-year. We encourage you to model on the conservative side, due to the continued uncertainty in the macroeconomic environment in the near-term. As we have 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 that total gross margin in Q4 will be approximately 65%. We believe Q4 operating expenses will be in the range of 36 to 37% of revenue. This includes the impact of foreign exchange, which continues to have a negative impact on our overall expense. We expect interest and other income to be approximately \$140 million in the fourth quarter. Our tax provision rate for Q4 is expected to be approximately 24%.

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 down approximately 50 million shares in weighted average shares outstanding for EPS purposes. In this estimate of share count, we are not taking into consideration any future change in the stock price that could occur in the fourth quarter of fiscal year '08.

As a point of reference, a \$1.00 increase in our average stock price would increase the calculated shares outstanding for purposes of determining earnings per share by approximately 15 million shares.

Regarding cash flow from operations, we would expect to generate \$700 million to \$900 million per month, at these revenue levels.

For our Q4 FY '08 GAAP earnings, we anticipate that Q4 GAAP EPS will be \$0.04 to \$0.06 per share lower than our non-GAAP EPS, primarily due to acquisition-related charges and stock option expense. Please see the slides that accompany this webcast, for further details.

Other than those 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, and tax or other events which may or may not be significant.

I will now turn the call back over to John.

Summary

Frank, thank you. At this time, I'd like to kind of summarize our comments and then following the summary, open it up for Q&A. The following is my view of Cisco's momentum and opportunities entering the fourth quarter of fiscal 2008.

In areas that Cisco can control or influence, our momentum continues to be strong, especially in the areas of product leadership, innovation and thought leadership. Balance continues to be reasonably good across geographies, products, services and customer segments.

We clearly continue to see the same things that each of you do, in terms of opportunities and concerns in the U.S. market, and the concerns about it expanding to other geographies. If the market does continue to slow, we believe this will not dramatically change our long-term opportunities, with our vision of how the

industry will evolve and our differentiated strategy.

In fact, it is our intent to expand our share of customer spend during the corrections, as we have done in the past. We also believe that our opportunities to expand in our current markets and market adjacencies are actually increasing. This is true from the Data Center to the home market, from the Service Provider to the small to medium business and the consumer. Therefore, you will continue to see us invest aggressively where it is appropriate, while maintaining our focus on our financial models.

From a geographic perspective, we continue to be optimistic about the majority of the global economies outside the US, based upon what we're hearing from our customers and our balanced strength in these countries across customer segments and product families. We will continue to monitor closely any spread of U.S. challenges to other geographies, while we are even more optimistic about our opportunities in India and China and the Emerging Markets in Asia, we will carefully track our momentum in some of the other Emerging Markets.

Japan appears to be in growth mode again and that is really great, Rick. I think Edzard's done an amazing job there.

From a U.S. perspective, the market did soften, as we indicated that possibility of, in the last quarter conference call. When our largest market is growing in the mid single-digits, it's difficult to grow our total market at much above the 10% range. In our opinion, there are many things that are exciting about the second phase of the Internet, as it enables collaboration and social networking through networked Web 2.0.

But at the top of this list are both the speed and the effectiveness with which these changes can be implemented across customer segments. Again, if we are right about the value it brings to both business and individuals, this is the top of the first inning of a nine inning game in terms of its broad business acceptance and associated benefits.

Our balanced product momentum across our core technologies and advanced technologies continues to be solid. But again, it is the loosely and then tightly coupled product strategy for these technologies that dramatically differentiates Cisco from our peers.

Our pipeline of new core routing and switching products continues to look very good, as evidenced by the major product announcements during the quarter in both the switching and routing product areas of ASR 1000, Nexus 7000 and Nexus 5000. 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 next generation early-stage technologies.

In summary, our product pipeline is in excellent shape and really looks 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 view that you are continuing to witness.

Once again with our usual caveats as discussed earlier in our financial reports, our Q4 fiscal year 2008 guidance is for Q4 revenue in the 9 to 10% range, from a year-over-year perspective. Our long-term growth opportunities remain in the 12 to 17% range, again assuming our usual caveats. We will continue to 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 transition, market adjacency opportunities 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

Blair, let me now turn it back over to you.

Okay. Thank you, John. At this point we'd like to open up the call to questions and answers.

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 (such as our vision of the network, our entry into new and adjacent markets, our strategy, our innovation, strengthening or expanding our positions in large, established markets, and the power of our business model) 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, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; the growth and evolution 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 our product and service markets; dependence on the introduction and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks, including risks related to our lean manufacturing model; product defects and returns; litigation involving patents, intellectual property, antitrust, shareholder and other matters, and governmental investigations; natural catastrophic events; a pandemic or epidemic; our ability to achieve 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; risks related to the global nature of our operations, including our operations in emerging markets, currency fluctuations and other international factors; potential volatility in operating results; and other factors listed in Cisco's most recent reports on Forms 10-K and 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 Forms 10-K and 10-Q, as each may be amended from time to time. Cisco's results of operations for the three and nine months ended April 26, 2008 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.