CISCO SYSTEMS, INC.
Form 10-Q
November 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 26, 2013

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-18225

CISCO SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

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

170 West Tasman Drive
San Jose, California 95134
(Address of principal executive office and zip code)
(408) 526-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

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

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
CISCO SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)
(Unaudited)

	October 26, 2013	July 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$5,254	$7,925
Investments	42,947	42,685
Accounts receivable, net of allowance for doubtful accounts of $245 at October 26, 2013 and $228 at July 27, 2013	5,188	5,470
Inventories	1,466	1,476
Financing receivables, net	4,132	4,037
Deferred tax assets	2,333	2,616
Other current assets	1,476	1,312
Total current assets	62,796	65,521
Property and equipment, net	3,273	3,322
Financing receivables, net	3,893	3,911
Goodwill	23,804	21,919
Purchased intangible assets, net	3,835	3,403
Other assets	3,140	3,115
TOTAL ASSETS	$100,741	$101,191
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$3,279	$3,283
Accounts payable	1,025	1,029
Income taxes payable	—	192
Accrued compensation	2,771	3,182
Deferred revenue	9,212	9,262
Other current liabilities	5,441	5,048
Total current liabilities	21,728	21,996
Long-term debt	12,947	12,928
Income taxes payable	1,575	1,748
Deferred revenue	3,995	4,161
Other long-term liabilities	1,587	1,230
Total liabilities	41,832	42,063
Commitments and contingencies (Note 12)		
Equity:		
Cisco shareholders’ equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	—	—
Common stock and additional paid-in capital, $0.001 par value: 20,000 shares authorized; 5,351 and 5,389 shares issued and outstanding at October 26, 2013 and July 27, 2013, respectively	42,166	42,297
Retained earnings	15,959	16,215
Accumulated other comprehensive income	772	608
Total Cisco shareholders’ equity	58,897	59,120

Noncontrolling interests	12	8
Total equity	58,909	59,128
TOTAL LIABILITIES AND EQUITY	$ 100,741	$ 101,191

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

Net cash used in financing activities	(2,565)	(961)
Net decrease in cash and cash equivalents	(2,671)	(5,026)
Cash and cash equivalents, beginning of period	7,925	9,799
Cash and cash equivalents, end of period	$5,254	$4,773
Supplemental cash flow information:		
Cash paid for interest	$221	$221
Cash paid for income taxes, net	$803	$776

See Notes to Consolidated Financial Statements.

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

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

Three Months Ended October 27, 2012	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT JULY 28, 2012	5,298	$ 39,271	$11,354	$ 661	$ 51,286	$ 15	$51,301
Net income			2,092		2,092		2,092
Other comprehensive income				172	172	—	172
Issuance of common stock	39	117			117		117
Repurchase of common stock	(15)	(114)	(139)		(253)		(253)
Shares repurchased for tax withholdings on vesting of restricted stock units	(11)	(203)			(203)		(203)
Cash dividends declared ($0.14 per common share)			(744)		(744)		(744)
Tax effects from employee stock incentive plans		(87)			(87)		(87)
Share-based compensation expense		306			306		306
BALANCE AT OCTOBER 27, 2012	5,311	$ 39,290	$12,563	$ 833	$ 52,686	$ 15	$52,701

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of October 26, 2013, the Company's Board of Directors had authorized an aggregate repurchase of up to $82 billion of common stock under this program, with no termination date.

In November 2013, the Company's Board of Directors authorized up to $15 billion in additional repurchases of common stock under this program, with no termination date. The stock repurchases since the inception of this program and the related impacts on Cisco shareholders' equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Total Cisco Shareholders' Equity
Repurchases of common stock under the repurchase program	3,952	$ 18,664	$ 62,242	$ 80,906

See Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The fiscal year for Cisco Systems, Inc. (the "Company" or "Cisco") is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2014 and fiscal 2013 are each 52-week fiscal years. The Consolidated Financial Statements include the accounts of Cisco and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company conducts business globally and is primarily managed on a geographic basis in the following three geographic segments: the Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific, Japan, and China (APJC).

The accompanying financial data as of October 26, 2013 and for the three months ended October 26, 2013 and October 27, 2012 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. The July 27, 2013 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 27, 2013.

The Company consolidates its investments in a venture fund managed by SOFTBANK Corp. and its affiliates ("SOFTBANK") and Insieme Networks, Inc. ("Insieme") as these are variable interest entities and the Company is the primary beneficiary. The noncontrolling interests attributed to SOFTBANK are presented as a separate component from the Company's equity in the equity section of the Consolidated Balance Sheets. SOFTBANK's share of the earnings in the venture fund and the loss attributable to the noncontrolling interests in Insieme are not presented separately in the Consolidated Statements of Operations as these amounts are not material for any of the fiscal periods presented.

In the opinion of management, all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly the statement of financial position as of October 26, 2013 and the results of operations, cash flows and equity for the three months ended October 26, 2013 and October 27, 2012, as applicable, have been made. The results of operations for the three months ended October 26, 2013 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Certain reclassifications have been made to prior period amounts in order to conform to the current period's presentation. The Company has evaluated subsequent events through the date that the financial statements were issued.

2. Recent Accounting Pronouncements

(a) New Accounting Updates Recently Adopted

In December 2011, the FASB issued an accounting standard update requiring enhanced disclosures about certain financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements or similar agreements. This accounting standard became effective for the Company in the first quarter of fiscal 2014. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 11.

In July 2012, the FASB issued an accounting standard update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update became effective for the Company beginning in the first quarter of fiscal 2014, and its adoption did not have any impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard became effective for the Company in the first quarter of fiscal 2014. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 15.

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

(b) Recent Accounting Standards or Updates Not Yet Effective

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

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

3. Business Combinations

(a) Acquisition Summary

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

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

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

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

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

The Company's purchase price allocation for business combinations completed during recent periods is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

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CISCO SYSTEMS, INC.
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(Unaudited)

The goodwill generated from the Company’s business combinations completed during the three months ended October 26, 2013 is primarily related to expected synergies. The goodwill is generally not deductible for income tax purposes. The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations for the acquisitions completed during the three months ended October 26, 2013 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company’s financial results.

(b) Acquisition of WhipTail Technologies, Inc.

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

4. Goodwill and Purchased Intangible Assets

(a) Goodwill

The following table presents the goodwill allocated to the Company’s reportable segments as of and during the three months ended October 26, 2013 (in millions):

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

(b) Purchased Intangible Assets

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

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

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

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

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

Purchased intangible assets include intangible assets acquired through business combinations as well as through direct purchases or licenses.

The following table presents the amortization of purchased intangible assets (in millions):

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

There were no impairment charges related to purchased intangible assets during the periods presented.

The estimated future amortization expense of purchased intangible assets with finite lives as of October 26, 2013 is as follows (in millions):

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

5. Restructuring and Other Charges

August Fiscal 2014 Plan

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

In connection with this restructuring action, the Company incurred cumulative charges of $237 million for the first quarter of fiscal 2014. The Company expects total pre-tax charges pursuant to these restructuring actions of approximately $550 million and it expects the remaining charges to be incurred though the end of fiscal 2014.
The following table summarizes the activities related to the restructuring and other charges pursuant to the August Fiscal 2014 Plan (in millions):

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

Fiscal 2011 Plans

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

6. Balance Sheet Details

The following tables provide details of selected balance sheet items (in millions):

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

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

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

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

7. Financing Receivables and Guarantees
(a) Financing Receivables
Financing receivables primarily consist of lease receivables, loan receivables, and financed service contracts and other. Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company's and complementary third-party products and are typically collateralized by a security interest in the underlying assets. Loan receivables represent financing arrangements related to the sale of the Company's products and services, which may include additional funding for other costs associated with network installation and integration of the Company's products and services. Lease receivables consist of arrangements with terms of four years on average, while loan receivables generally have terms of up to three years. The financed service contracts and other category includes financing receivables related to technical support and advanced services, as well as receivables related to financing of certain indirect costs associated with leases. Revenue related to the technical support services is typically deferred and included in deferred service revenue and is recognized ratably over the period during which the related services are to be performed, which typically ranges from one to three years.
A summary of the Company's financing receivables is presented as follows (in millions):

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

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

As of October 26, 2013 and July 27, 2013, the deferred service revenue related to the financed service contracts and other was $1,881 million and $2,036 million, respectively.
Contractual maturities of the gross lease receivables at October 26, 2013 are summarized as follows (in millions):

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

Actual cash collections may differ from the contractual maturities due to early customer buyouts, refinancings, or defaults.

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(b) Credit Quality of Financing Receivables

Financing receivables categorized by the Company’s internal credit risk rating as of October 26, 2013 and July 27, 2013 are summarized as follows (in millions):

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

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

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers, which consist of the following: lease receivables, loan receivables, and financed service contracts and other.

The Company’s internal credit risk ratings of 1 through 4 correspond to investment-grade ratings, while credit risk ratings of 5 and 6 correspond to non-investment grade ratings. Credit risk ratings of 7 and higher correspond to substandard ratings.

In circumstances when collectibility is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company’s revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of October 26, 2013 and July 27, 2013 were $2,289 million and $2,453 million, respectively, and they were associated with financing receivables (net of unearned income) of $8,375 million and $8,292 million as of their respective period ends. The Company did not modify any financing receivables during the periods presented.

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

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
October 26, 2013	31-60	61-90	91+	Total Past Due	Current	Gross Receivables, Net of Unearned Income	Nonaccrual Financing Receivables	Impaired Financing Receivables
Lease receivables	$135	$60	$148	$343	$3,206	$3,549	$28	$24
Loan receivables	28	2	16	46	1,762	1,808	7	17

Financed service contracts and other	85	41	277	403	2,615	3,018	12	11
Total	$248	$103	$441	$792	$7,583	$8,375	$47	$52

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

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

As of October 26, 2013, the Company had financing receivables of $92 million, net of unbilled or current receivables from the same contract, that were in the category for 91 days plus past due but remained on accrual status. Such balance was $87 million as of July 27, 2013. A financing receivable may be placed on nonaccrual status earlier if, in management's opinion, a timely collection of the full principal and interest becomes uncertain.

(c) Allowance for Credit Loss Rollforward

The allowances for credit loss and the related financing receivables are summarized as follows (in millions):

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

Three Months Ended October 27, 2012	CREDIT LOSS ALLOWANCES Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 28, 2012	$247	$122	$ 11	$380
Provisions	(2)	(10)	1	(11)
Foreign exchange and other	3	2	—	5
Allowance for credit loss as of October 27, 2012	$248	$114	$ 12	$374
Gross receivables as of October 27, 2012, net of unearned income	$3,340	$1,816	$ 2,639	$7,795

The Company assesses the allowance for credit loss related to financing receivables on either an individual or a collective basis. The Company considers various factors in evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis. These factors include the Company’s historical experience, credit quality and age of the receivable balances, and economic conditions that may affect a customer’s ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including any accrued interest, will be assessed and fully reserved at the customer level. The Company’s internal credit risk ratings are categorized as 1 through 10, with the lowest credit risk rating representing the highest quality financing receivables.

Typically, the Company also considers receivables with a risk rating of 8 or higher to be impaired and will include them in the individual assessment for allowance. These balances, as of October 26, 2013 and July 27, 2013, are presented under “(b) Credit Quality of Financing Receivables” above.

The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. When evaluating the financing receivables on a collective basis, the Company uses expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk, and correlation.

(d) Financing Guarantees

In the ordinary course of business, the Company provides financing guarantees for various third-party financing arrangements extended to channel partners and end-user customers. Payments under these financing guarantee arrangements were not material for the periods presented.

Channel Partner Financing Guarantees The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The volume of channel partner financing was $6.3 billion and $5.6 billion for the three months ended October 26, 2013 and October 27, 2012, respectively. The balance of the channel partner financing subject to guarantees was $1.4 billion as of each October 26, 2013 and July 27, 2013.

End-User Financing Guarantees The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans, which typically have terms of up to three years. The volume of financing provided by third parties for leases and loans as to which the Company had provided guarantees was $25 million and $44 million for the three months ended October 26, 2013 and October 27, 2012, respectively.

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at October 26, 2013 and July 27, 2013, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

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

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8. Investments
(a) Summary of Available-for-Sale Investments
The following tables summarize the Company's available-for-sale investments (in millions):

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

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

Non-U.S. government and agency securities include agency and corporate debt securities that are guaranteed by non-U.S. governments.
(b) Gains and Losses on Available-for-Sale Investments
The following table presents the gross realized gains and gross realized losses related to the Company's available-for-sale investments (in millions):

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

The following table presents the realized net gains (losses) related to the Company's available-for-sale investments by security type (in millions):

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

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

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

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

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

As of October 26, 2013, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of October 26, 2013, the Company anticipates that it will recover the entire amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended October 26, 2013.

The Company has evaluated its publicly traded equity securities as of October 26, 2013 and has determined that there was no indication of other-than-temporary impairments in the respective categories of unrealized losses. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

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(c) Maturities of Fixed Income Securities

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

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

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

(d) Securities Lending

The Company periodically engages in securities lending activities with certain of its available-for-sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for the three months ended October 26, 2013 and October 27, 2012 was $0.6 billion and $0.8 billion, respectively. The Company requires collateral equal to at least 102% of the fair market value of the loaned security and that the collateral be in the form of cash or liquid, high-quality assets. The Company engages in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify the Company against collateral losses. The Company did not experience any losses in connection with the secured lending of securities during the periods presented. As of October 26, 2013 and July 27, 2013, the Company had no outstanding securities lending transactions.

9. Fair Value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

(a) Fair Value Hierarchy

The accounting guidance for fair value measurement requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices, that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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(b) Assets and Liabilities Measured at Fair Value on a Recurring Basis
Assets and liabilities measured at fair value on a recurring basis as of October 26, 2013 and July 27, 2013 were as follows (in millions):

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

Level 1 publicly traded equity securities are determined by using quoted prices in active markets for identical assets. Level 2 fixed income securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data, which are obtained from quoted market prices, independent pricing vendors or other sources, to determine the ultimate fair value of these assets and liabilities. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs. The Company is ultimately responsible for the financial statements and underlying estimates. The Company’s derivative instruments are primarily classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

(c) Assets Measured at Fair Value on a Nonrecurring Basis
The following table presents the Company’s financial instruments and nonfinancial assets that were measured at fair value on a nonrecurring basis during the indicated periods and the related recognized gains and losses for the periods (in millions):

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

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

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The fair value measurement of the impaired investments was classified as Level 3 because significant unobservable inputs were used in the valuation due to the absence of quoted market prices and inherent lack of liquidity. Significant unobservable inputs, which included financial metrics of comparable private and public companies, financial condition and near-term prospects of the investees, recent financing activities of the investees, and the investees' capital structure as well as other economic variables, reflected the assumptions market participants would use in pricing these assets. The impairment charges, representing the difference between the net book value and the fair value as a result of the evaluation, were recorded to other income (loss), net.

(d) Other Fair Value Disclosures

The carrying value of the Company's investments in privately held companies that were accounted for under the cost method was $238 million and $242 million as of October 26, 2013 and July 27, 2013, respectively. It was not practicable to estimate the fair value of this portfolio.

The fair value of the Company's short-term loan receivables and financed service contracts approximates their carrying value due to their short duration. The aggregate carrying value of the Company's long-term loan receivables and financed service contracts and other as of October 26, 2013 and July 27, 2013 was $2.0 billion and $2.1 billion, respectively. The estimated fair value of the Company's long-term loan receivables and financed service contracts and other approximates their carrying value. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value of its loan receivables and financed service contracts, and therefore they are categorized as Level 3.

As of October 26, 2013, the fair value of the Company's senior notes and other long-term debt was $17.6 billion with a carrying amount of $16.2 billion. This compares to a fair value of $17.6 billion and a carrying amount of $16.2 billion as of July 27, 2013. The fair value of the senior notes and other long-term debt was determined based on observable market prices in a less active market and was categorized as Level 2 in the fair value hierarchy.

10. Borrowings

(a) Short-Term Debt

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

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

In fiscal 2011, the Company established a short-term debt financing program of up to $3.0 billion through the issuance of commercial paper notes. The Company uses the proceeds from the issuance of commercial paper notes for general corporate purposes. The Company had no commercial paper notes outstanding as of each of October 26, 2013 and July 27, 2013.

Other notes and borrowings consist of the short-term portion of secured borrowings associated with customer financing arrangements as well as notes and credit facilities with a number of financial institutions that are available to certain of the Company's foreign subsidiaries. These notes and credit facilities were subject to various terms and foreign currency market interest rates pursuant to individual financial arrangements between the financing institution and the applicable foreign subsidiary.

As of October 26, 2013, the estimated fair value of the short-term debt approximates its carrying value due to the short maturities.

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(b) Long-Term Debt

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

	October 26, 2013		July 27, 2013	
	Amount	Effective Rate	Amount	Effective Rate
Senior Notes:				
Floating-rate notes, due 2014	$1,250	0.61%	$1,250	0.62%
1.625% fixed-rate notes, due 2014	2,000	0.62%	2,000	0.64%
2.90% fixed-rate notes, due 2014	500	3.11%	500	3.11%
5.50% fixed-rate notes, due 2016	3,000	3.06%	3,000	3.07%
3.15% fixed-rate notes, due 2017	750	0.82%	750	0.84%
4.95% fixed-rate notes, due 2019	2,000	4.69%	2,000	4.70%
4.45% fixed-rate notes, due 2020	2,500	3.73%	2,500	4.15%
5.90% fixed-rate notes, due 2039	2,000	6.11%	2,000	6.11%
5.50% fixed-rate notes, due 2040	2,000	5.67%	2,000	5.67%
Other long-term debt	23	1.32%	21	1.46%
Total	16,023		16,021	
Unaccreted discount	(63)		(65)	
Hedge accounting fair value adjustments	256		245	
Total	$16,216		$16,201	
Reported as:				
Current portion of long-term debt	$3,269		$3,273	
Long-term debt	12,947		12,928	
Total	$16,216		$16,201	

To achieve its interest rate risk management objectives, the Company has entered into interest rate swaps with an aggregate notional amount of $5.75 billion designated as fair value hedges of certain of its fixed-rate senior notes. In effect, these swaps convert the fixed interest rates of the fixed-rate notes to floating interest rates based on the London InterBank Offered Rate (LIBOR). The gains and losses related to changes in the fair value of the interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. For additional information see Note 11.

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

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

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

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

Total	$16,023

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(c) Credit Facility

On February 17, 2012, the Company entered into a credit agreement with certain institutional lenders that provides for a $3.0 billion unsecured revolving credit facility that is scheduled to expire on February 17, 2017. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the higher of the Federal Funds rate plus 0.50%, Bank of America's "prime rate" as announced from time to time, or one-month LIBOR plus 1.00%, or (ii) LIBOR plus a margin that is based on the Company's senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc. The credit agreement requires the Company to comply with certain covenants, including that it maintain an interest coverage ratio as defined in the agreement. As of October 26, 2013, the Company was in compliance with the required interest coverage ratio and the other covenants, and the Company had not borrowed any funds under the credit facility.

The Company may also, upon the agreement of either the existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $2.0 billion and/or extend the expiration date of the credit facility by up to two additional years, or up to February 17, 2019.

11. Derivative Instruments

(a) Summary of Derivative Instruments

The Company uses derivative instruments primarily to manage exposures to foreign currency exchange rate, interest rate, and equity price risks. The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates, interest rates, and equity prices. The Company's derivatives expose it to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company does, however, seek to mitigate such risks by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counterparties.

The fair values of the Company's derivative instruments and the line items on the Consolidated Balance Sheets to which they were recorded are summarized as follows (in millions):

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

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The effects of the Company’s cash flow and net investment hedging instruments on OCI and the Consolidated Statements of Operations are summarized as follows (in millions):

GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)			GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		
Derivatives designated as cash flow hedging instruments:	October 26, 2013	October 27, 2012	Line Item in Statements of Operations	October 26, 2013	October 27, 2012
Foreign currency derivatives	$38	$66	Operating expenses	$7	$(4)
			Cost of sales - service	2	(1)
Total	$38	$66		$9	$(5)
Derivatives designated as net investment hedging instruments:					
Foreign currency derivatives	$(19)	$(24)	Other income (loss), net	$—	$—

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

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

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

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

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

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

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

(b) Offsetting of Derivative Instruments

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

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

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

(c) Foreign Currency Exchange Risk

The Company conducts business globally in numerous currencies. Therefore, it is exposed to adverse movements in foreign currency exchange rates. To limit the exposure related to foreign currency changes, the Company enters into foreign currency contracts. The Company does not enter into such contracts for trading purposes.

The Company hedges forecasted foreign currency transactions related to certain operating expenses and service cost of sales with currency options and forward contracts. These currency option and forward contracts, designated as cash flow hedges, generally have maturities of less than 18 months. The Company assesses effectiveness based on changes in total fair value of the derivatives. The effective portion of the derivative instrument's gain or loss is initially reported as a component of AOCI and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion, if any, of the gain or loss is reported in earnings immediately. During the periods presented, the Company did not discontinue any cash flow hedges for which it was probable that a forecasted transaction would not occur.

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The Company enters into foreign exchange forward and option contracts to reduce the short-term effects of foreign currency fluctuations on assets and liabilities such as foreign currency receivables, including long-term customer financings, investments, and payables. These derivatives are not designated as hedging instruments. Gains and losses on the contracts are included in other income (loss), net, and substantially offset foreign exchange gains and losses from the remeasurement of intercompany balances or other current assets, investments, or liabilities denominated in currencies other than the functional currency of the reporting entity.

The Company hedges certain net investments in its foreign operations with forward contracts to reduce the effects of foreign currency fluctuations on the Company's net investment in those foreign subsidiaries. These derivative instruments generally have maturities of up to six months.

(d) Interest Rate Risk

Interest Rate Derivatives, Investments   The Company's primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. To realize these objectives, the Company may utilize interest rate swaps or other derivatives designated as fair value or cash flow hedges. As of October 26, 2013 and July 27, 2013, the Company did not have any outstanding interest rate derivatives related to its fixed income securities.

Interest Rate Derivatives Designated as Fair Value Hedge, Long-Term Debt   In fiscal 2014 and 2013, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that were issued in February 2009 and November 2009 and are due in 2019 and 2020, respectively. In the previous periods, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that were issued in 2006 and 2011 and are due in 2014, 2016, and 2017. Under these interest rate swaps, the Company receives fixed-rate interest payments and makes interest payments based on LIBOR plus a fixed number of basis points. The effect of such swaps is to convert the fixed interest rates of the senior fixed-rate notes to floating interest rates based on LIBOR. The gains and losses related to changes in the fair value of the interest rate swaps are included in interest expense and substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. The fair value of the interest rate swaps was reflected in other assets.

(e) Equity Price Risk

The Company may hold equity securities for strategic purposes or to diversify its overall investment portfolio. The publicly traded equity securities in the Company's portfolio are subject to price risk. To manage its exposure to changes in the fair value of certain equity securities, the Company has entered into equity derivatives that are designated as fair value hedges. The changes in the value of the hedging instruments are included in other income (loss), net, and offset the change in the fair value of the underlying hedged investment. In addition, the Company periodically manages the risk of its investment portfolio by entering into equity derivatives that are not designated as accounting hedges. The changes in the fair value of these derivatives are also included in other income (loss), net.

The Company is also exposed to variability in compensation charges related to certain deferred compensation obligations to employees. Although not designated as accounting hedges, the Company utilizes derivatives such as total return swaps to economically hedge this exposure.

(f) Hedge Effectiveness

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

(g) Credit-Risk-Related Contingent Features

Certain derivative instruments are executed under agreements that have provisions requiring the Company and the counterparty to maintain a specified credit rating from certain credit-rating agencies. If the Company's or the counterparty's credit-rating falls below a specified credit rating, either party has the right to request collateral on the derivatives' net liability position. Such provisions did not affect the Company's financial position as of October 26, 2013 and July 27, 2013.

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12. Commitments and Contingencies

(a) Operating Leases

The Company leases office space in many U.S. locations. Outside the United States, larger leased sites include sites in Australia, Belgium, China, France, Germany, India, Israel, Italy, Japan, and the United Kingdom. The Company also leases equipment and vehicles. Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of October 26, 2013 are as follows (in millions):

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

(b) Purchase Commitments with Contract Manufacturers and Suppliers

The Company purchases components from a variety of suppliers and uses several contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by the Company or establish the parameters defining the Company's requirements. A significant portion of the Company's reported purchase commitments arising from these agreements consists of firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule, and adjust the Company's requirements based on its business needs prior to firm orders being placed. As of October 26, 2013 and July 27, 2013, the Company had total purchase commitments for inventory of $4,020 million and $4,033 million, respectively.

The Company records a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of its future demand forecasts consistent with the valuation of the Company's excess and obsolete inventory. As of October 26, 2013 and July 27, 2013, the liability for these purchase commitments was $169 million and $172 million, respectively, and was included in other current liabilities.

(c) Other Commitments

In connection with the Company's business combinations and asset purchases, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or the continued employment with the Company of certain employees of the acquired entities. The Company recognized such compensation expense of $304 million and $12 million during the three months ended October 26, 2013 and October 27, 2012, respectively. As of October 26, 2013, the Company estimated that future compensation expense and contingent consideration of up to $853 million may be required to be recognized pursuant to the applicable business combination and asset purchase agreements, which included the remaining potential compensation expense related to Insieme Networks, Inc. as more fully discussed in the subsection entitled "Insieme Networks, Inc." within section (d) immediately below.

The Company also has certain funding commitments, primarily related to its investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were $265 million and $263 million as of October 26, 2013 and July 27, 2013, respectively.

(d) Variable Interest Entities

VCE Joint Venture VCE is a joint venture that the Company formed in fiscal 2010 with EMC Corporation ("EMC"), with investments from VMware, Inc. ("VMware") and Intel Corporation. VCE helps organizations leverage best-in-class technologies and disciplines from Cisco, EMC, and VMware to enable the transformation to cloud computing.

As of October 26, 2013, the Company's cumulative gross investment in VCE was approximately $578 million, inclusive of accrued interest, and its ownership percentage was approximately 35%. The Company invested $64 million in VCE during the three months ended October 26, 2013.

The Company accounts for its investment in VCE under the equity method, and its portion of VCE's net loss is recognized in other income (loss), net. The Company's share of VCE's losses, based upon its portion of the overall funding, was approximately 36.8% for each of the three months ended October 26, 2013 and October 27, 2012. As of October 26, 2013, the Company had recorded cumulative losses from VCE of $475 million since inception, of which losses of $53 million and $42 million were recorded for the three months ended