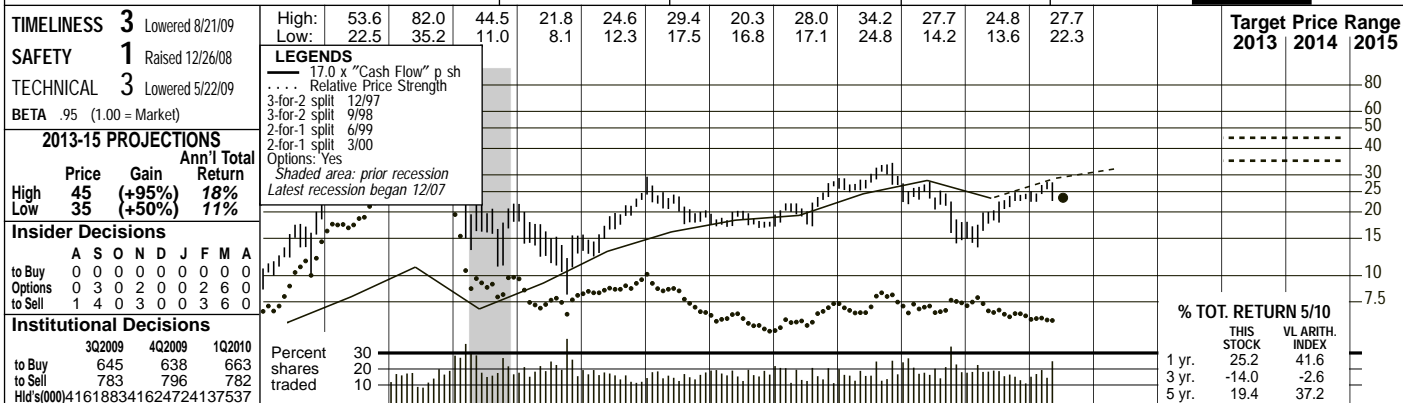


# CISCO SYSTEMS NDQ-CSCO

RECENT PRICE **23.33** P/E RATIO **16.4** (Trailing: 19.8 Median: 24.0) RELATIVE P/E RATIO **1.01** DIV'D YLD **Nil** VALUE LINE



Cisco Systems was formed in 1984 by computer scientists from Stanford University to commercialize the technology used in developing a campus-wide network to integrate local networks of various computer systems. Its first multi-protocol routers were shipped in March 1986. On February 16, 1990, Morgan Stanley & Co. and Smith Barney, Harris Upham & Co. managed the initial public offering of 806.4 million shares at \$0.66 a share (adjusted for splits).

|                                 | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010                                  | 2011   |        |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------------------------------|--------|--------|
| Revenues per sh <sup>A</sup>    | 2.65   | 3.04   | 2.59   | 2.70   | 3.31   | 3.95   | 4.70   | 5.73   | 6.71   | 6.24   | 7.00                                  | 8.10   | 10.55  |
| "Cash Flow" per sh              | .65    | .41    | .54    | .77    | .95    | 1.08   | 1.13   | 1.43   | 1.66   | 1.37   | 1.70                                  | 1.90   | 2.45   |
| Earnings per sh <sup>B</sup>    | .53    | .26    | .39    | .59    | .76    | .87    | .89    | 1.17   | 1.31   | 1.05   | 1.33                                  | 1.50   | 2.00   |
| Div'ds Decl'd per sh            | --     | --     | --     | --     | --     | --     | --     | --     | --     | --     | Nil                                   | Nil    | Nil    |
| Cap'l Spending per sh           | .15    | .31    | .36    | .10    | .09    | .11    | .13    | .21    | .22    | .17    | .20                                   | .25    | .20    |
| Book Value per sh               | 3.71   | 3.70   | 3.92   | 4.01   | 3.88   | 3.69   | 3.95   | 5.16   | 5.83   | 6.68   | 7.75                                  | 8.60   | 12.20  |
| Common Shs Outst'g <sup>C</sup> | 7138.0 | 7324.0 | 7303.0 | 6998.0 | 6650.4 | 6274.7 | 6059.0 | 6100.0 | 5893.0 | 5785.0 | 5700.0                                | 5680.0 | 5600.0 |
| Avg Ann'l P/E Ratio             | NMF    | NMF    | 42.4   | 24.3   | 29.6   | 21.6   | 21.3   | 22.0   | 20.6   | 17.7   | Bold figures are Value Line estimates |        | 20.0   |
| Relative P/E Ratio              | NMF    | NMF    | 2.32   | 1.39   | 1.56   | 1.15   | 1.15   | 1.17   | 1.24   | 1.18   |                                       |        | 1.35   |
| Avg Ann'l Div'd Yield           | --     | --     | --     | --     | --     | --     | --     | --     | --     | --     |                                       |        | Nil    |

**CAPITAL STRUCTURE as of 5/1/10**

Total Debt \$15.2 bill. Due in 5 years \$3.1 bill.  
LT Debt \$12.1 bill. LT Interest \$525 mill. (22% of Cap'l)

Leases, Uncapitalized Annual rentals \$345 mill.

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 5,711,151,107 shs. as of 5/20/10

MARKET CAP: \$135 billion (Large Cap)

|                                | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010  | 2011  |       |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| Revenues (\$mill) <sup>A</sup> | 18928  | 22293  | 18915  | 18878  | 22045  | 24801  | 28484  | 34922  | 39540  | 36117  | 40000 | 46000 | 59000 |
| Operating Margin               | 30.1%  | 19.6%  | 23.4%  | 34.3%  | 35.2%  | 34.0%  | 29.1%  | 28.7%  | 28.3%  | 25.2%  | 29.5% | 29.0% | 29.0% |
| Depreciation (\$mill)          | 694.0  | 1026.0 | 1082.0 | 1069.0 | 957.0  | 1009.0 | 1293.0 | 1413.0 | 1744.0 | 1768.0 | 1850  | 1900  | 2200  |
| Net Profit (\$mill)            | 3914.0 | 1970.0 | 2873.0 | 4287.0 | 5337.0 | 5741.0 | 5580.0 | 7333.0 | 8052.0 | 6134.0 | 7800  | 8790  | 11540 |
| Income Tax Rate                | 30.0%  | 28.0%  | 28.0%  | 28.0%  | 28.0%  | 28.0%  | 26.9%  | 22.5%  | 21.5%  | 20.3%  | 22.0% | 20.3% | 22.0% |
| Net Profit Margin              | 20.7%  | 8.8%   | 15.2%  | 22.7%  | 24.2%  | 23.1%  | 19.6%  | 21.0%  | 20.4%  | 17.0%  | 19.5% | 19.1% | 19.6% |
| Working Cap'l (\$mill)         | 5914.0 | 4739.0 | 9058.0 | 5121.0 | 5640.0 | 3520.0 | 14363  | 18216  | 21841  | 30522  | 33580 | 36370 | 68300 |
| Long-Term Debt (\$mill)        | --     | --     | --     | --     | --     | --     | 6332.0 | 6408.0 | 6393.0 | 10295  | 12120 | 12120 | 12120 |
| Shr. Equity (\$mill)           | 26497  | 27120  | 28656  | 28029  | 25826  | 23174  | 23912  | 31480  | 34353  | 38647  | 44150 | 48940 | 68300 |
| Return on Total Cap'l          | 14.8%  | 7.3%   | 10.0%  | 15.3%  | 20.7%  | 24.8%  | 18.7%  | 19.9%  | 20.2%  | 12.9%  | 14.5% | 15.0% | 15.0% |
| Return on Shr. Equity          | 14.8%  | 7.3%   | 10.0%  | 15.3%  | 20.7%  | 24.8%  | 23.3%  | 23.3%  | 23.4%  | 15.9%  | 18.0% | 18.0% | 17.0% |
| Retained to Com Eq             | 14.8%  | 7.3%   | 10.0%  | 15.3%  | 20.7%  | 24.8%  | 23.3%  | 23.3%  | 23.4%  | 15.9%  | 18.0% | 18.0% | 17.0% |
| All Div'ds to Net Prof         | --     | --     | --     | --     | --     | --     | --     | --     | --     | --     | Nil   | Nil   | Nil   |

**CURRENT POSITION** 2008 2009 5/1/10 (\$MILL.)

|                          |       |       |       |
|--------------------------|-------|-------|-------|
| Cash Assets <sup>D</sup> | 26235 | 35001 | 39106 |
| Receivables              | 3821  | 3177  | 4078  |
| Inventory (FIFO)         | 1235  | 1074  | 1250  |
| Other                    | 4408  | 4925  | 5324  |
| Current Assets           | 35699 | 44177 | 49758 |
| Debt Due                 | 500   | --    | 3127  |
| Accts Payable            | 869   | 675   | 902   |
| Other                    | 12489 | 12980 | 14410 |
| Current Liab.            | 13858 | 13655 | 18439 |

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '07-'09 to '13-'15

|             |       |       |       |
|-------------|-------|-------|-------|
| Revenues    | 16.0% | 17.0% | 7.0%  |
| "Cash Flow" | 15.0% | 14.5% | 7.5%  |
| Earnings    | 14.5% | 15.0% | 8.5%  |
| Dividends   | --    | --    | Nil   |
| Book Value  | 17.0% | 8.5%  | 11.5% |

**BUSINESS:** Cisco Systems, Inc. is the leading supplier of high-performance internetworking products for linking local-area and wide-area networks of computer systems. Products include routers, LAN and ATM switches, dial-up access servers, and network management software. The Cisco IOS software platform ties these products together, delivers network services, and enables

networked applications. Foreign business accounted for 46.4% of 2009 revenues. R&D, 12.9% of revs. '09 deprec. rate: 12.5%. Has about 66,129 employees. Officers/Directors hold less than 1.0% of stock. (9/09 proxy). Chairman & CEO: J.T. Chambers. Incorporated: California. Address: 170 W. Tasman Drive, San Jose, CA 95134-1706. Telephone: 408-526-4000. Web: www.cisco.com.

**QUARTERLY REVENUES (\$ mill.)<sup>A</sup>**

| Fiscal Year Ends | Oct.Per | Jan.Per | Apr.Per | Jul.Per | Full Fiscal Year |
|------------------|---------|---------|---------|---------|------------------|
| 2007             | 8184    | 8439    | 8866    | 9433    | 34922            |
| 2008             | 9554    | 9831    | 9791    | 10364   | 39540            |
| 2009             | 10331   | 9089    | 8162    | 8535    | 36117            |
| 2010             | 9021    | 9815    | 10368   | 10796   | 40000            |
| 2011             | 10800   | 11200   | 11800   | 12200   | 46000            |

**EARNINGS PER SHARE<sup>AB</sup>**

| Fiscal Year Ends | Oct.Per | Jan.Per | Apr.Per | Jul.Per | Full Fiscal Year |
|------------------|---------|---------|---------|---------|------------------|
| 2007             | .26     | .31     | .30     | .30     | 1.17             |
| 2008             | .35     | .33     | .29     | .34     | 1.31             |
| 2009             | .37     | .26     | .23     | .19     | 1.05             |
| 2010             | .30     | .32     | .37     | .34     | 1.33             |
| 2011             | .35     | .36     | .38     | .41     | 1.50             |

**Cisco is benefiting from a recovery in IT spending.** April-period revenue advanced 27%, year over year, narrowly surpassing guidance of 23%-26%. Earnings of \$0.37 outdistanced our call of \$0.33, but most of that outperformance can be attributed to a favorable tax rate and greater investment income. All operating regions and product categories rose more than 25% (excluding Japan and the Advanced Technologies unit). Europe (22% of revenues) was up 30%, even with its economic difficulties. Management expects double-digit revenue growth to continue in the current quarter, despite softness from Italy and Spain. Companywide July-quarter guidance calls for the top line to climb 25%-28%, year over year, and 5%-6% sequentially. Considering the healthy order backlog, this appears reasonable.

growth in the triple digits in the fiscal third quarter. Further, its TelePresence video conferencing devices saw orders rise 50%. Management highlighted the health and education industries as key markets for that category, along with the more conventional boardroom environments. The considerable progress being made on Cisco's new offerings gives us confidence in its annual revenue growth target of 12%-17%.

**QUARTERLY DIVIDENDS PAID**

| Calendar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|----------|--------|--------|--------|--------|-----------|
| 2006     |        |        |        |        |           |
| 2007     |        |        |        |        |           |
| 2008     |        |        |        |        |           |
| 2009     |        |        |        |        |           |
| 2010     |        |        |        |        |           |

NO CASH DIVIDENDS BEING PAID

**New products are growing by leaps and bounds.** Cisco's new data center platform, dubbed the Unified Computing System, uses virtualization technology to make data center operations faster and easier to manage. This product, along with the company's new Nexus line of data center switches, and ASR series of routers, all

**We suggest that investors consider these high-quality shares.** A rebound in enterprise, carrier, and public sector spending on traditional routing and switching products is well under way, resulting in market-share gains at Cisco. Moreover, its new data center, virtualization, and collaboration products should soon reach a point of mass adoption as enterprises look to upgrade to more cost-efficient technologies. CSCO's reputation for producing high-quality, technologically superior products, coupled with the network capacity constraints being brought about by rampant video-sharing and mobile Internet usage, should ensure this momentum continues.

Kevin Downing June 25, 2010

|  |                              |     |
|--|------------------------------|-----|
| (A) Fiscal year ends on last Saturday in July (four 13-week quarters). (B) Diluted earnings. Excludes nonrecurring items: '99, (7c); '00, (17c); '01, (38c); '02, (14c); '03, (9c); '04, (14c). '01 includes \$0.15 inventory writeoff. May not sum due to rounding. Next earnings report due early August. (C) In millions, adjusted for stock splits. (D) Long- and short-term investments accounted for within current assets beginning in fiscal 2006. | Company's Financial Strength | A++ |
|  | Stock's Price Stability      | 85  |
|  | Price Growth Persistence     | 45  |
|  | Earnings Predictability      | 85  |