

CISCO SYSTEMS, INC.
Form 8-K
August 17, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): August 17, 2016

CISCO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation)

0-18225
(Commission File Number)

77-0059951
(IRS Employer Identification No.)

170 West Tasman Drive, San Jose, California
(Address of principal executive offices)

95134-1706
(Zip Code)

(408) 526-4000

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(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On August 17, 2016, Cisco Systems, Inc. (Cisco) reported its results of operations for its fiscal fourth quarter and fiscal year 2016 ended July 30, 2016. A copy of the press release issued by Cisco concerning the foregoing results is furnished herewith as Exhibit 99.1.

The information contained herein and in the accompanying exhibit shall not be incorporated by reference into any filing of Cisco, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference to such filing. The information in this report, including the exhibit hereto, shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

The attached exhibit includes non-GAAP net income, non-GAAP gross margins, non-GAAP operating expenses, non-GAAP operating income and margin, non-GAAP effective tax rates, non-GAAP net income per share data, and free cash flow for the periods presented. It also includes future estimated ranges for gross margin, operating margin, tax provision rate and EPS on a non-GAAP basis.

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with generally accepted accounting principles, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Cisco believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Cisco's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate Cisco's results of operations in conjunction with the corresponding GAAP measures.

Cisco believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and its historical and projected results of operations. Cisco believes that the presentation of free cash flow, which it defines as the net cash provided by operating activities less cash used to acquire property and equipment, to be a liquidity measure that provides useful information to management and investors because of Cisco's intent to return a stated percentage of free cash flow to shareholders in the form of dividends and stock repurchases. Cisco further regards free cash flow as a useful measure because it reflects cash that can be used to, among other things, invest in its business, make strategic acquisitions, repurchase common stock, and pay dividends on its common stock, after deducting capital investments.

For its internal budgeting process, Cisco's management uses financial statements that do not include, when applicable, share-based compensation expense, amortization of acquisition-related intangible assets, impact to cost of sales from purchase accounting adjustments to inventory, acquisition-related/divestiture costs, significant asset impairments and restructurings, significant litigation and other contingencies, significant gains and losses on investments, the income tax effects of the foregoing, and significant tax matters. Cisco's management also uses the foregoing non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the financial results of Cisco. In prior periods, Cisco has excluded other items that it no longer excludes for purposes of its non-GAAP financial measures. From time to time in the future, there may be other items that Cisco may exclude for purposes of its internal budgeting process and in reviewing its financial results.

Cisco divested the Customer Premises Equipment portion of its Service Provider Video Connected Devices business (SP Video CPE Business) during the second quarter of fiscal 2016 on November 20, 2015. The attached exhibit includes, where indicated, financial measures that exclude the SP Video CPE Business. Cisco believes that the presentation of these measures provides useful information to investors and management regarding financial and business trends relating to its financial condition and its historical and projected results of operations because the SP Video CPE Business is no longer part of and will not be part of Cisco on a go forward basis. Cisco's management also

uses the financial measures excluding the SP Video CPE Business in reviewing the financial results of Cisco.

As described above, Cisco excludes the following items from one or more of its non-GAAP measures when applicable:

Share-based compensation expense. These expenses consist primarily of expenses for employee restricted stock and restricted stock units, employee stock options, and employee stock purchase rights, including such expenses associated with acquisitions. Cisco excludes share-based compensation expense from its non-GAAP measures primarily because they are non-cash expenses and Cisco believes that it is useful to investors to understand the impact of share-based compensation to its results of operations.

Amortization of acquisition-related intangible assets. Cisco incurs amortization of intangible assets (which may include impairment charges from the write-downs of purchased intangible assets) in connection with acquisitions. Such intangible assets may include purchased intangible assets with finite lives, capitalized in process research and development and goodwill. Cisco excludes these items because Cisco does not believe these expenses are reflective of ongoing operating results in the period incurred. These amounts arise from Cisco's prior acquisitions and have no direct correlation to the operation of Cisco's business.

Impact to cost of sales from purchase accounting adjustments to inventory. This represents the amount of increase in inventory valuation resulting from the fair value adjustments required under purchase accounting for business combinations. Cisco excludes such impacts as these amounts arise from Cisco's prior acquisitions and have no direct correlation to the operation of Cisco's business.

Acquisition-related/divestiture costs. In connection with its business combinations, Cisco incurs compensation expense, changes to the fair value of contingent consideration, as well as professional fees and other direct expenses such as restructuring activities related to the acquired company. In addition, from time to time Cisco enters into foreign currency transactions related to pending acquisitions, and may incur gains or losses on such transactions. Cisco may also from time to time incur gains or losses from divestitures of a business area as well as professional fees and other direct expenses associated with such transactions. Cisco excludes such compensation expense, changes to the fair value of contingent consideration, fees, other direct expenses, and gains and losses, as they are related to acquisitions and divestitures and have no direct correlation to the operation of Cisco's business.

Significant asset impairments and restructurings. Cisco from time to time incurs significant asset impairments, restructuring charges, and gains or losses on asset disposals. Cisco excludes these items, when significant, because it does not believe they are reflective of ongoing business and operating results.

Significant litigation and other contingencies. Cisco from time to time may incur charges or benefits related to significant litigation and other contingencies. Cisco excludes these charges or benefits, when significant, because it does not believe they are reflective of ongoing business and operating results.

Significant gains and losses on investments. Cisco does not actively trade public equity securities and investments in privately held companies nor does it plan on these investments for funding of ongoing operations, and investments. Cisco excludes gains and losses on these investments, when significant, because it does not believe they are reflective of ongoing business and operating results.

Income tax effects of the foregoing. This amount is used to present each of the amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

Significant tax matters. Cisco may incur tax charges or benefits in the current period that relate to one or more prior fiscal years as a result of events such as changes in tax legislation, court decisions, and/or tax settlements. Cisco excludes these charges or benefits, when significant, because it does not believe they are reflective of ongoing business and operating results.

From time to time in the future, there may be other items that Cisco may exclude if it believes that doing so is consistent with the goal of providing useful information to investors and management.

Cisco will incur share-based compensation expense, amortization of acquisition-related intangible assets, impacts to cost of sales from purchase accounting adjustments to inventory, and acquisition-related costs, in future periods. Significant asset impairments, restructurings, significant litigation and other contingencies, significant gains and losses on investments, and divestiture costs could occur in future periods. Cisco could also be impacted by significant tax matters in future periods.

Item 2.05. Costs Associated with Exit or Disposal Activities.

On August 17, 2016, Cisco announced a restructuring plan that will impact up to 5,500 employees, representing approximately 7 percent of Cisco's global workforce. Cisco will take action under this plan beginning in the first quarter of fiscal 2017. Cisco currently estimates that it will recognize pre-tax charges to its GAAP financial results in an amount of up to \$700 million consisting of severance and other one-time termination benefits, and other associated costs. These charges are primarily cash-based. Cisco expects that approximately \$325 million to \$400 million of these charges will be recognized during the first quarter of fiscal 2017 with the remaining amount to be recognized during the rest of the fiscal year.

The foregoing contains 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 the size of the restructuring and the amount and timing of the related charges. Statements regarding future events are based on Cisco's current expectations and are necessarily subject to associated risks related to the completion of the restructuring in the manner anticipated by Cisco. 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: Cisco's ability to achieve the benefits of the announced restructuring and possible changes in the size and timing of the related charges. For information regarding other factors that could cause Cisco's results to vary from expectations, please see the "Risk Factors" section of Cisco's filings with the Securities and Exchange Commission, including its most recent quarterly report on Form 10-Q. Cisco undertakes no obligation to revise or update publicly any forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CISCO SYSTEMS, INC.

Dated: August 17, 2016

By: /s/ Kelly A. Kramer

Name: Kelly A. Kramer

Title: Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
99.1	Press Release of Cisco, dated August 17, 2016, reporting the results of operations for Cisco's fiscal fourth quarter and fiscal year 2016 ended July 30, 2016.