CISCO SYSTEMS INC
Form 424B3
February 10, 2006
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-131723

The information in this preliminary prospectus supplement and accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission and is effective. This preliminary prospectus supplement and accompanying prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated February 10, 2006

Preliminary Prospectus Supplement

(To Prospectus dated February 10, 2006)

$

$ Floating Rate Notes due 20

$ % Senior Notes due 20

$ % Senior Notes due 20

We are offering $ of our Floating Rate Notes due 20 (the 20 notes), $ of our % Senior Notes due 20 (the 20 notes) and $ of our % Senior Notes due 20 (the 20 notes and, together with the 20 notes and the 20 notes, the notes).

The 20 notes will bear interest at a floating rate equal to three-month LIBOR plus % per annum. The 20 notes will bear interest at a rate of % per annum and the 20 notes will bear interest at a rate of % per annum. We will pay interest quarterly on the 20 notes on , , and of each year, beginning on , 2006. We will pay interest semi-annually on the 20 notes and the 20 notes on and of each year, beginning on , 2006. Interest on the notes will accrue from February , 2006. The 20 notes will mature on , 20 , the 20 notes will mature on , 20 , and the 20 notes will mature on , 20 .

We may redeem the 20 notes and the 20 notes at any time at the make-whole premium set forth under the heading *Description of Notes Optional Redemption* in this prospectus supplement. The 20 notes will not be redeemable.

The notes will be our senior unsecured obligations and will rank equally with our other senior unsecured indebtedness. The notes are not and will not be listed on any securities exchange.

Investing in these securities involves certain risks. See Risk Factors beginning on page S-8 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	Initial public offering price(1)	Underwriting discounts	Proceeds to Cisco Systems, Inc. before expenses
Per 20 note	%	%	%
Per 20 note	%	%	%
Per 20 note	%	%	%
Total	$	$	$

(1) Plus accrued interest, if any, from February , 2006.

The underwriters expect to deliver the notes to investors through the book-entry delivery system of The Depository Trust Company for the accounts of its participants, including Clearstream, Luxembourg and the Euroclear System, on or about February , 2006.

Joint Book-Running Managers

Citigroup JPMorgan Merrill Lynch & Co. Morgan Stanley

February , 2006

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the prospectus supplement. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any state where the offer or sale is not permitted. You should not assume that the information provided in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public from the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room in Washington, D.C. located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of any document we file at prescribed rates by writing to the Public Reference Section of the Securities Exchange Commission at that address. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Information about us, including our SEC filings, is also available on our website at http://www.cisco.com; however, that information is not a part of this prospectus supplement or the accompanying prospectus.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference in this prospectus supplement the information in other documents that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement, and information in documents that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus supplement. We incorporate by reference in this prospectus supplement the documents listed below and any future filings that we may make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the termination of the offering under this prospectus supplement:

Annual Report on Form 10-K for the year ended July 30, 2005;

Quarterly Report on Form 10-Q for the quarter ended October 29, 2005; and

Current Reports on Form 8-K filed September 8, 2005, September 9, 2005, September 19, 2005, September 21, 2005, September 27, 2005, November 16, 2005, November 18, 2005, February 1, 2006 and February 10, 2006, and a Current Report on Form 8-K/A filed November 16, 2005.

As previously reported, beginning in fiscal 2006, we reorganized our geographic segments. Pursuant to SEC guidance, we have recast in a Current Report on Form 8-K, filed on February 10, 2006, Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements that are contained in our Annual Report on Form 10-K for the year ended July 30, 2005, to reflect this change in reportable segments. The revised Management s Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements so contained in the Current Report on Form 8-K, which is incorporated by reference in this prospectus supplement, supersede the corresponding sections of our Annual Report on Form 10-K for the year ended July 30, 2005.

Notwithstanding the foregoing, we are not incorporating any document or information deemed to have been furnished and not filed in accordance with SEC rules. You may obtain a copy of any or all of the documents referred to above which may have been or may be incorporated by reference into this prospectus supplement (excluding certain exhibits to the documents) at no cost to you by writing or telephoning us at the following address:

Cisco Systems, Inc.

170 West Tasman Drive

San Jose, California 95134-1706

Attn: Investor Relations Department

(408) 227-2726

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SUMMARY

The Company

We manufacture and sell networking and communications products and provide services associated with that equipment and its use. Our products are installed at corporations, public institutions, telecommunication companies, and commercial businesses and are also found in personal residences. We provide a broad line of products for transporting data, voice, and video within buildings, across campuses, and around the world. We conduct our business globally and are managed geographically in five segments: United States and Canada; European Markets; Emerging Markets; Asia Pacific; and Japan.

We sell scalable, standards-based networking products that address a wide range of customers business needs, including improving productivity, reducing costs, and gaining a competitive advantage. Our corresponding technology focus is on delivering networking products and systems that simplify customers infrastructures, offer integrated services, and are highly secure. Our products and services help customers build their own network infrastructures while providing tools to allow them to communicate with key stakeholders, including customers, prospects, business partners, suppliers, and employees.

Our products are used individually or in combination to connect computing devices to networks or computer networks with each other whether they are within a building, across a campus, or around the world. Our breadth of product and service offerings enables us to offer a wide range of products and services to meet customer requirements. We also provide products and services that allow customers to transition their various networks to a single multiservice data, voice, and video network.

We refer to some of our products and technologies as advanced technologies, and we believe some of these advanced technologies may grow over time to become material contributors to our overall business. Each of these advanced technologies and our core switching and routing businesses builds upon our existing competencies. We have currently identified nine advanced technologies for particular focus: application networking services, digital video, enterprise IP voice communications, home networking, hosted small business systems, optical networking, security, storage area networking and wireless technologies. We are in the process of identifying additional advanced technologies for focus and investment in the future, and our investments in some presently identified advanced technologies may be curtailed or eliminated depending on market developments.

Over time, we believe that the Internet and the various networks associated with it, including corporate intranets, cable, broadband and dialup networks, and voice and video networks, will evolve to include embedded resources and the virtualization of applications and services to produce an integrated, intelligent system or, as we refer to it, an Intelligent Information Network. This is our vision for the evolution of networking from connectivity products to intelligent systems. In this evolving environment, we believe successful vendors will be capable of providing a broad spectrum of products aimed not at a particular technology platform but at solutions to networking problems that span all segments. As such, many of our strategic initiatives and investments are aimed at meeting the requirements that an Intelligent Information Network would demand. For a discussion of the risks associated with that strategy, please see the section of this prospectus supplement entitled *Risk Factors*, including the risk factor entitled We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers changing needs, our operating results and market share may suffer.

Our offerings fall into several categories: routing; switching; advanced technologies; and other products. In addition to our product offerings, we provide a broad range of service offerings, including technical support services and advanced services.

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Recent Developments

Proposed Acquisition of Scientific-Atlanta, Inc.

On November 18, 2005, we entered into a definitive merger agreement to acquire Scientific-Atlanta, Inc. Scientific-Atlanta is a provider of set-top boxes, end-to-end video distribution networks and video system integration. Under the terms of the merger agreement, we have agreed to pay $43.00 per share in exchange for each outstanding share of Scientific-Atlanta common stock and to assume outstanding options, for an aggregate purchase price of approximately $6.9 billion, or approximately $5.3 billion net of Scientific-Atlanta s cash resources as of November 18, 2005. We intend to use the net proceeds of this offering to finance a portion of the aggregate purchase price of Scientific-Atlanta and for general corporate purposes. See *Use of Proceeds* below. The acquisition of Scientific-Atlanta will be accounted for as a purchase and is expected to close in late February or early March 2006.

Announcement of Financial Results for Second Quarter of Fiscal Year 2006

On February 7, 2006, we announced our unaudited financial results for our second fiscal quarter ended January 28, 2006.

Net sales for the three months ended January 28, 2006 increased 9.3% to $6.6 billion from $6.1 billion for the three months ended January 29, 2005. For the six months ended January 28, 2006, our net sales increased 9.5% to $13.2 billion from $12.0 billion for the six months ended January 29, 2005.

Gross margin for the three months ended January 28, 2006 was 67.4%, compared to gross margin of 66.9% for the three months ended January 29, 2005. For the six months ended January 28, 2006, gross margin was 67.4%, compared to gross margin of 67.0% for the six months ended January 29, 2005. Net income for the three months ended January 28, 2006 was $1.4 billion, or $0.22 per fully diluted share (based on 6.2 billion shares used in per-share calculation), compared to net income of $1.4 billion, or $0.21 per fully diluted share (based on 6.7 billion shares used in per-share calculation), for the three months ended January 29, 2005. For the six months ended January 28, 2006, we reported net income of $2.6 billion, or $0.42 per fully diluted share (based on 6.3 billion shares used in per-share calculation), compared to net income of $2.8 billion, or $0.42 per fully diluted share (based on 6.7 billion shares used in per-share calculation), for the six months ended January 29, 2005. Net income for the three and six months ended January 28, 2006 includes stock-based compensation expense related to employee stock options and employee stock purchases, net of tax, of $188 million and $416 million, respectively. Net income prior to fiscal 2006 did not include stock-based compensation expense related to employee stock options and employee stock purchases.

Cash flows from operations were $3.3 billion for the first six months of fiscal 2006, compared with $3.2 billion for the first six months of fiscal 2005, and compared with $1.4 billion for the first quarter of fiscal 2006. Cash and cash equivalents and investments were $15.0 billion at the end of the second quarter of fiscal 2006, compared with $16.1 billion at the end of the fourth quarter of fiscal 2005, and compared with $13.5 billion at the end of the first quarter of fiscal 2006.

During the second quarter of fiscal 2006, we repurchased and retired 42 million shares of our common stock at an average price of $17.87 per share for an aggregate purchase price of approximately $748 million.

Address and Telephone Number

The mailing address of our principal executive offices is 170 West Tasman Drive, San Jose, California 95134-1706, and our telephone number at that location is (408) 526-4000.

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Summary Consolidated Financial Data

The following summary consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the period ended October 29, 2005 and in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included in our Current Report on Form 8-K, filed with the SEC on February 10, 2006, all incorporated by reference in this prospectus supplement. The summary consolidated financial data for the years ended July 30, 2005, July 31, 2004 and July 26, 2003 are derived from our audited financial statements incorporated by reference in this prospectus supplement from our Current Report on Form 8-K, filed with the SEC on February 10, 2006. The summary consolidated financial data for the three months ended October 29, 2005 and October 30, 2004 are derived from our unaudited financial statements incorporated by reference in this prospectus supplement from our Quarterly Report on Form 10-Q for the period ended October 29, 2005.

	Fiscal year ended			Three months ended(1)	
	July 30, 2005	July 31, 2004	July 26, 2003	October 29, 2005	October 30, 2004
	(in millions, except per-share amounts)				
Consolidated Statements of Operations Data:					
Net sales:					
Product	$ 20,853	$ 18,550	$ 15,565	$ 5,491	$ 5,033
Service	3,948	3,495	3,313	1,059	938
Total net sales	24,801	22,045	18,878	6,550	5,971
Cost of sales:					
Product	6,758	5,766	4,594	1,751	1,646
Service	1,372	1,153	1,051	389	310
Total cost of sales	8,130	6,919	5,645	2,140	1,956
Gross margin	16,671	15,126	13,233	4,410	4,015
Operating expenses:					
Research and development	3,322	3,192	3,135	996	805
Sales and marketing	4,721	4,530	4,116	1,453	1,120
General and administrative	959	867	702	278	230
Amortization of purchased intangible assets	227	242	394	59	60
In-process research and development	26	3	4	2	12
Total operating expenses	9,255	8,834	8,351	2,788	2,227
Operating income	7,416	6,292	4,882	1,622	1,788
Interest income	552	512	660	154	130
Other income (loss), net	68	188	(529)	(17)	40
Interest and other income, net	620	700	131	137	170
Income before provision for income taxes and cumulative effect of accounting change	8,036	6,992	5,013	1,759	1,958
Provision for income taxes	2,295	2,024	1,435	498	562
Income before cumulative effect of accounting change	5,741	4,968	3,578	1,261	1,396
Cumulative effect of accounting change, net of tax(2)		(567)			

Net income(2)	$ 5,741	$ 4,401	$ 3,578	$ 1,261	$ 1,396
Income per share before cumulative effect of accounting change basic	$ 0.88	$ 0.73	$ 0.50	$ 0.20	$ 0.21
Income per share before cumulative effect of accounting change diluted	$ 0.87	$ 0.70	$ 0.50	$ 0.20	$ 0.21
Net income per share basic	$ 0.88	$ 0.64	$ 0.50	$ 0.20	$ 0.21
Net income per share diluted(3)	$ 0.87	$ 0.62	$ 0.50	$ 0.20	$ 0.21
Shares used in per share calculation basic	6,487	6,840	7,124	6,245	6,635
Shares used in per share calculation diluted(3)	6,612	7,057	7,223	6,340	6,773

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	October 29, 2005	
	Actual	As adjusted(4)
Consolidated Balance Sheet Data (in millions):		
Cash and cash equivalents	$ 1,704	$
Working capital	10,517	
Total assets	31,755	
Long-term obligations		
Total shareholders equity	21,437	21,437

(1) Net income for the first quarter of fiscal 2006 included stock-based compensation expense under SFAS 123(R) of $253 million, net of tax, which consisted of stock-based compensation expense of $228 million, net of tax, related to employee stock options and employee stock purchases and stock-based compensation expense of $25 million, net of tax, related to acquisitions and investments. Net income for the first quarter of fiscal 2005 included stock-based compensation expense of $38 million, net of tax, related to acquisitions and investments. There was no stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123 in the first quarter of fiscal 2005 because we did not adopt the recognition provisions of SFAS 123. Net income including pro forma stock-based compensation expense as previously disclosed in Note 10 to the Consolidated Financial Statements for the first quarter of fiscal 2005 was $1.1 billion, or $0.17 per diluted share. For additional information, see Note 9 to the Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the period ended October 29, 2005 incorporated by reference in this prospectus supplement.

(2) Net income for fiscal 2004 included a noncash charge for the cumulative effect of accounting change relating to a stock-based compensation charge of $567 million, net of tax. See Note 3 to the Consolidated Financial Statements in our Current Report on Form 8-K, filed with the SEC on February 10, 2006, incorporated by reference in this prospectus supplement.

(3) Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period.

(4) As adjusted to reflect the sale by us of the notes, after deducting underwriting discounts and estimated offering expenses.

Ratio of Earnings to Fixed Charges

The following table contains our ratio of earnings to fixed charges for the periods indicated.

	Fiscal year ended				
Three months ended October 29, 2005	July 30, 2005	July 31, 2004	July 26, 2003	July 27, 2002	July 28, 2001(1)
131.3x	150.6x	123.0x	86.3x	35.1x	

(1) Earnings were inadequate to cover fixed charges by $874 million for the fiscal year ended July 28, 2001.

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The Offering

Issuer	Cisco Systems, Inc.
Notes Offered	$ aggregate principal amount of 20 notes, $ aggregate principal amount of 20 notes and $ aggregate principal amount of 20 notes.
Maturity	The 20 notes mature on , 20 , the 20 notes mature on , 20 and the 20 notes mature on , 20 .
Interest Rates	The 20 notes will bear interest from February , 2006 at a floating rate equal to three-month LIBOR plus % per annum, payable quarterly, the 20 notes will bear interest from February , 2006 at the rate of % per annum, payable semi-annually, and the 20 notes will bear interest from February , 2006 at the rate of % per annum, payable semi-annually.
Rating	The notes are expected to be rated A1 by Moody s Investors Service and A+ by Standard & Poor s, in each case with a stable outlook.
Interest Payment Dates	, , and of each year for the 20 notes, beginning on , 2006, and and of each year for the 20 notes and the 20 notes, beginning on , 2006.
Ranking	The notes are unsecured and will rank equally in right of payment with all of our other existing and future senior unsecured indebtedness.
	The notes will effectively rank junior to all liabilities of our subsidiaries. As of October 29, 2005, our subsidiaries had approximately $2.3 billion of outstanding liabilities, including trade payables but excluding intercompany liabilities and deferred revenue.
Optional Redemption	We may redeem the 20 notes and the 20 notes, in whole or in part, at any time at the make-whole premium described under the heading *Description of Notes Optional Redemption* in this prospectus supplement. The 20 notes will not be redeemable.
Certain Covenants	The indenture governing the notes contains covenants limiting our ability and our subsidiaries ability to: create certain liens and enter into sale and lease-back transactions; and consolidate or merge with, or convey, transfer or lease substantially all our assets to, another person.

You should read *Description of Debt Securities Covenants* in the accompanying prospectus for a description of these covenants. Exceptions to these covenants will allow us and our subsidiaries to create, grant or incur liens or security interests with respect to our headquarters and certain material facilities.

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Use of Proceeds	We intend to use the net proceeds of this offering to finance a portion of the purchase price of our acquisition of Scientific-Atlanta and for general corporate purposes.
Risk Factors	See *Risk Factors* beginning on page S-8 of this prospectus supplement for important information regarding us and an investment in the notes.
Further Issuances	We may create and issue further notes of any series ranking equally with the notes of the corresponding series (other than the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes). Such notes may be consolidated and form a single series with the notes of the corresponding series.

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RISK FACTORS

Set forth below are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein.

Risks Related to Our Business

Our operating results may fluctuate in future periods.

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of numerous factors. These factors include:

- fluctuations in demand for our products and services, especially with respect to Internet businesses and telecommunications service providers, in part due to the changing global economic environment;
- changes in sales and implementation cycles for our products and reduced visibility into our customers spending plans and associated revenue;
- our ability to maintain appropriate inventory levels and purchase commitments;
- price and product competition in the communications and networking industries, which can change rapidly due to technological innovation;
- the overall movement toward industry consolidation among both our competitors and our customers;
- the introduction and market acceptance of new technologies and products and our success in new markets, including emerging and advanced technologies, as well as the adoption of new networking standards;
- variations in sales channels, product costs, or mix of products sold;
- the timing, size, and mix of orders from customers;
- manufacturing and customer lead times;

fluctuations in our gross margins, and the factors that contribute to this as described below;

our ability to achieve targeted cost reductions;

the ability of our customers, channel partners, and suppliers to obtain financing or to fund capital expenditures;

the timing and amount of employer payroll tax to be paid on our employees gains on stock options exercised;

actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in the Consolidated Financial Statements incorporated by reference in this prospectus supplement;

how well we execute on our strategy and operating plans;

benefits anticipated from our investments in engineering and sales activities; and

changes in accounting rules, such as recording expenses for employee stock option grants and changes in tax accounting principles.

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As a consequence, operating results for a particular future period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition.

Our operating results may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment.

Economic conditions worldwide have contributed to slowdowns in the communications and networking industries and may impact our business, resulting in:

- reduced demand for our products as a result of continued constraints on information technology-related capital spending by our customers, particularly service providers;
- increased price competition for our products, not only from our competitors but also as a consequence of customers disposing of unutilized products;
- risk of excess and obsolete inventories;
- excess facilities and manufacturing capacity; and
- higher overhead costs as a percentage of revenue.

Recent turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the continuing tension in and surrounding Iraq, and changes in energy costs may continue to put pressure on global economic conditions. If the economic and market conditions in the United States and globally do not improve, or if they deteriorate, we may experience material impacts on our business, operating results, and financial condition.

Our revenue for a particular period is difficult to predict, and a shortfall in revenue may harm our operating results.

As a result of a variety of factors, our revenue for a particular quarter is difficult to predict. Our net sales may grow at a slower rate than in past periods, or may decline. Our ability to meet financial expectations could also be adversely affected if the nonlinear sales pattern seen in some of our past quarters recurs in future periods. We have experienced periods of time during which shipments have exceeded net bookings, or manufacturing issues have delayed shipments, leading to nonlinearity in shipping patterns. In addition to making it difficult to predict revenue for a particular period, nonlinearity in shipping can increase costs, because irregular shipment patterns result in periods of underutilized capacity and periods in which overtime expenses may be incurred, as well as leading to additional costs arising out of inventory management. In addition, to the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods in which we and our contract manufacturers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters occur and are not remediated within the same quarter.

In addition, to improve customer satisfaction, we continue to attempt to improve our manufacturing lead-time performance, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results. Long manufacturing lead times have caused our customers in the past to place the same order multiple times within our various sales channels and to cancel the duplicative orders upon receipt of the product, or to place orders with other vendors with shorter manufacturing lead times. Such multiple ordering (along with other factors) may cause difficulty in predicting our sales and, as a result, could impair our ability to manage parts inventory effectively.

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We plan our operating expense levels based primarily on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short term. A shortfall in revenue could lead to operating results being below expectations because we may not be able to quickly reduce these fixed expenses in response to short term business changes.

Any of the above factors could have a material adverse impact on our operations and financial results.

We expect our gross margin to vary over time, and our level of product gross margin may not be sustainable.

Our level of product gross margins may not be sustainable and may continue to be adversely affected by numerous factors, including:

- changes in customer, geographic, or product mix, including mix of configurations within each product group;
- introduction of new products, including products with price-performance advantages;
- our ability to reduce production costs;
- entry into new markets, including markets with different pricing and cost structures, through acquisitions or internal development;
- sales discounts;
- increases in material or labor costs;
- excess inventory and inventory holding charges;
- obsolescence charges;
- changes in shipment volume;
- loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- lower than expected benefits from value engineering;
- increased price competition, including competitors from Asia, especially China;

changes in distribution channels;

increased warranty costs; and

how well we execute on our strategy and operating plans.

Changes in service gross margin may result from various factors such as changes in the mix between technical support services and advanced services, as well as the timing of technical support service contract initiations and renewals and the addition of personnel and other resources to support higher levels of service business in future periods.

Disruption of or changes in our distribution model could harm our sales and margins.

If we fail to manage distribution of our products and services properly, or if our distributors financial condition or operations weaken, our revenue and gross margins could be adversely affected.

A substantial portion of our products and services is sold through our channel partners and the remainder is sold through direct sales. Our channel partners include systems integrators, service providers, other resellers, distributors, and retail partners. Systems integrators and service providers typically sell directly to end-users and often provide system installation, technical support, professional services, and other support services in addition to network equipment sales. Systems integrators also typically integrate our products into an overall solution, and a number of service providers are also systems integrators. Distributors stock inventory and typically sell to systems integrators, service providers, and other resellers. In addition, home networking products are generally sold through distributors and retail partners. We refer to sales through distributors and retail partners as our two-tier system of sales to the end customer. Revenue from distributors and retail partners is recognized based on a sell-through method using information provided by them. These distributors and retail partners are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. If sales through indirect channels increase, this may lead to greater difficulty in forecasting the mix of our products and, to a degree, the timing of orders from our customers.

Historically, we have seen fluctuations in our gross margins based on changes in the balance of our distribution channels. Although variability to date has not been significant, there can be no assurance that changes in the balance of our distribution model in future periods would not have an adverse effect on our gross margins and profitability.

Some factors could result in disruption of or changes in our distribution model, which could harm our sales and margins, including the following:

- we compete with some of our channel partners through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products;
- some of our channel partners may demand that we absorb a greater share of the risks that their customers may ask them to bear; and
- some of our channel partners may have insufficient financial resources and may not be able to withstand changes in business conditions.

Our inventory management relating to our sales to our two-tier distribution channel is complex, and excess inventory may harm our gross margins.

We must manage our inventory relating to sales to our distributors and retail partners effectively, because inventory held by them could affect our results of operations. Our distributors and retail partners may increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in anticipation of new products. They also may adjust their orders in response to the supply of our products and the products of our competitors that are available to them and in response to seasonal fluctuations in end-user demand. Revenue to our distributors and retail partners is recognized based on a sell-through method using information provided by them, and they are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling price, and participate in various cooperative marketing programs. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements. If we ultimately determine that we have excess inventory, we may have to reduce our prices and write-down inventory, which in turn could result in lower gross margins.

Sales to the service provider market are especially volatile, and weakness in sales orders from this industry may harm our operating results and financial condition.

Sales to the service provider market have been characterized by large and often sporadic purchases, especially relating to our router sales and sales of certain of our advanced technologies, in addition to longer sales cycles. We have experienced significant weakness in sales to service providers as market conditions have changed. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures; the availability of funding; and the extent to which service providers are affected by regulatory,

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economic, and business conditions in the country of operations. Although some service providers may be increasing capital expenditures over the depressed levels that have prevailed over the last few years, weakness in orders from this industry could have a material adverse effect on our business, operating results, and financial condition. Slowdowns in the general economy, overcapacity, changes in the service provider market, regulatory developments and constraints on capital availability have had a material adverse effect on many of our service provider customers, with many of these customers going out of business or substantially reducing their expansion plans. These conditions have materially harmed our business and operating results, and we expect that some or all of these conditions may continue for the foreseeable future. Finally, service provider customers typically have longer implementation cycles; require a broader range of service including design services; demand that vendors take on a larger share of risks; often require acceptance provisions, which can lead to a delay in revenue recognition; and expect financing from vendors. All these factors can add further risk to business conducted with service providers.

A shortage of adequate component supply or manufacturing capacity could increase our costs or cause a delay in our ability to fulfill orders, and our failure to estimate customer demand properly may result in excess or obsolete component supply, which could adversely affect our gross margins.

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. We have experienced component shortages in the past, including shortages caused by manufacturing process issues, that have affected our operations. We may in the future experience a shortage of certain component parts as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, or strong demand in the industry for those parts, especially if the economy grows. Growth in the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and component demands within specific product categories and to establish optimal component levels. If shortages or delays persist, the price of these components may increase, or the components may not be available at all, and we may also encounter shortages if we do not accurately anticipate our needs. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed. Accordingly, our revenue and gross margins could suffer until other sources can be developed. Our operating results would also be adversely affected if, anticipating greater demand than actually develops, we commit to the purchase of more components than we need. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

We believe that we may be faced with the following challenges in the future:

- new markets in which we participate may grow quickly, which may make it difficult to quickly obtain significant component capacity;
- as we acquire companies and new technologies, we may be dependent, at least initially, on unfamiliar supply chains or relatively small supply partners; and
- we face competition for certain components, which are supply-constrained, from existing competitors and companies in other markets.

Manufacturing capacity and component supply constraints, including those caused by any possible disruption related to our recently announced transition to Lean Manufacturing, could be significant issues for us. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to improve manufacturing lead time performance and to help assure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as

defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete components that could adversely affect our gross margins. For additional information regarding our purchase commitments, see Note 7 to the Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the period ended October 29, 2005 incorporated by reference in this prospectus supplement. A reduction or interruption in supply; a significant increase in the price of one or more components; a failure to adequately authorize procurement of inventory by our contract manufacturers; a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs; or a decrease in demand for our products could materially adversely affect our business, operating results, and financial condition and could materially damage customer relationships. Furthermore, as a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are higher than those available in the current market. In the event that we become committed to purchase components at prices in excess of the current market price when the components are actually used, our gross margins could decrease.

The fact that we do not own the bulk of our manufacturing facilities could have an adverse impact on the supply of our products and on our operating results. Financial problems of contract manufacturers on whom we rely, or reservation of manufacturing capacity by other companies, inside or outside of our industry, could either limit supply or increase costs.

The markets in which we compete are intensely competitive, which could adversely affect our revenue growth.

We compete in the networking and communications equipment markets, providing products and services for transporting data, voice, and video traffic across intranets, extranets, and the Internet. These markets are characterized by rapid change, converging technologies, and a migration to networking solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to us. We compete with numerous vendors in each product category. The overall number of our competitors providing niche product solutions may increase. Also, the identity and composition of competitors may change as we increase our activity in our emerging and advanced technology markets. As we continue to expand our sales globally, we may see new competition in different geographic regions. In particular, we are seeing price-focused competitors from Asia, especially China, and we anticipate this will continue.

Our competitors include 3Com; Alcatel; Avaya; Avici Systems; Brocade Communications Systems, Inc.; Check Point Software Technologies; Ciena; D-Link Corporation; Dell; Enterasys Networks; Extreme Networks; F5 Networks, Inc.; Force10 Networks, Inc.; Foundry Networks; Fujitsu; Hewlett-Packard Company; Huawei Technologies; Juniper Networks; Lucent Technologies; McDATA Corporation; NETGEAR, Inc.; Nokia; Nortel Networks; Redback Networks; Siemens AG; Sycamore Networks; and Symbol Technologies, Inc., among others.

Some of these companies compete across many of our product lines, while others are primarily focused in a specific product area.

Barriers to entry are relatively low, and new ventures to create products that do or could compete with our products are regularly formed. In addition, some of our competitors may have greater resources, including technical and engineering resources, than we do. As we expand into new markets, we will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets. We also sometimes face competition from resellers and distributors of our products. Companies with whom we have strategic alliances in some areas may be competitors in other areas.

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The principal competitive factors in the markets in which we presently compete and may compete in the future include:

- the ability to provide a broad range of networking products and services;
- product performance;
- price;
- the ability to introduce new products, including products with price-performance advantages;
- the ability to reduce production costs;
- the ability to provide value-added features such as security, reliability, and investment protection;
- conformance to standards;
- market presence; and
- the ability to provide financing.

We also face competition from customers to whom we license or supply technology and suppliers from whom we transfer technology. The inherent nature of networking requires interoperability. As such, we must cooperate and at the same time compete with many companies. Any inability to effectively manage these complicated relationships with customers, suppliers and strategic alliance partners could have a material adverse effect on our business, operating results, and financial condition and accordingly affect our chances of success.

We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers changing needs, our operating results and market share may suffer.

The markets for our products are characterized by rapidly changing technology, evolving industry standards, new product introductions, and evolving methods of building and operating networks. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the production costs of existing products. We believe that the Internet and the various networks associated with it, including corporate intranets, cable, broadband and dialup networks, and voice and video networks will evolve to include embedded resources and the virtualization of applications and services to produce an integrated, intelligent system, or as we refer to it, an Intelligent Information Network. This is our vision for the evolution of networking from connectivity products to intelligent systems. As such, many of our strategic initiatives and investments are aimed at meeting the requirements that an Intelligent Information Network would demand. The process of developing new technology is complex and uncertain, and if we fail to accurately predict customers changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to developing new products before knowing whether our investments will result in products the market will accept. In particular, if our model of the evolution of networking from connectivity products to intelligent systems does not emerge as we believe it will, many of our strategic initiatives and investments may be of no or limited value. Furthermore, we may not execute successfully on that vision because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and loss of market share, net sales and earnings. The success of new products depends on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. Specifically, the products and technologies that we identify as emerging technologies or advanced technologies may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or advanced technologies.

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We are increasing our investment in engineering and sales activities and these investments may achieve delayed, or lower than expected, benefits which could harm our operating results.

We intend to continue to add personnel and other resources to both our engineering and sales functions as we focus on developing emerging technologies, the next wave of advanced technologies, growing the commercial market segment, capitalizing on our emerging market opportunities, enhancing our evolving support model and increasing our market share gains. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

Our business substantially depends upon the continued growth of the internet and internet-based systems.

A substantial portion of our business and revenue depends on growth of the Internet and on the deployment of our products by customers who depend on the continued growth of the Internet. To the extent that an economic slowdown and reduction in capital spending adversely affect spending on Internet infrastructure, we could experience material harm to our business, operating results, and financial condition.

Because of the rapid introduction of new products and changing customer requirements related to matters such as cost-effectiveness and security, we believe that there could be certain performance problems with Internet communications in the future, which could receive a high degree of publicity and visibility. Because we are a large supplier of networking products, our business, operating results, and financial condition may be materially adversely affected, regardless of whether or not these problems are due to the performance of our own products.

Changes in industry structure and market conditions could lead to charges related to discontinuances of certain of our products or businesses and asset impairments.

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings.

We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.

Our growth depends upon market growth, our ability to enhance our existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following:

difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products, such as Scientific-Atlanta;

- diversion of management s attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;

- potential difficulties in completing projects associated with in-process research and development;

- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

- initial dependence on unfamiliar supply chains or relatively small supply partners;

- insufficient revenue to offset increased expenses associated with acquisitions; and

- the potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

Acquisitions may also cause us to:

- use a substantial portion of our cash resources or incur debt;

- assume liabilities;

- record goodwill and nonamortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;

- incur amortization expenses related to certain intangible assets;

- incur large and immediate write-offs and restructuring and other related expenses; and

- become subject to intellectual property or other litigation.

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to an inability to do so. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that preacquisition due diligence will have identified all possible issues that might arise with respect to such products.

From time to time, we have made acquisitions that resulted in in-process research and development expenses being charged in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings. Risks related to new product development also apply to acquisitions. Please see the risk factors above, including the risk factor entitled We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers changing needs, our operating results and market share may suffer, for additional information.

Entrance into new or developing markets exposes us to additional competition and will likely increase demands on our service and support operations.

As we focus on new market opportunities for example, storage; wireless; security; and transporting data, voice, and video traffic across the same network we will increasingly compete with large telecommunications equipment suppliers as well as startup companies. Several of our competitors may have greater resources, including technical and engineering resources, than we do. Additionally, as customers in these markets complete infrastructure deployments, they may require greater levels of service, support, and financing than we have provided in the past. Demand for these types of service or financing contracts may increase in the future. There can be no assurance that we can provide products, service, support, and financing to effectively compete for these market opportunities. Further, provision of greater levels of services by us may result in a

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delay in the timing of revenue recognition. In addition, entry into other markets, including our entry into the consumer market, has subjected and will subject us to additional risks, particularly to those markets, including the effects of general market conditions and reduced consumer confidence.

Product quality problems could lead to reduced revenue, gross margins, and net income.

We produce highly complex products that incorporate leading-edge technology, including both hardware and software. Software typically contains bugs that can unexpectedly interfere with expected operations. There can be no assurance that our preshipment testing programs will be adequate to detect all defects, either ones in individual products or ones that could affect numerous shipments, which might interfere with customer satisfaction, reduce sales opportunities, or affect gross margins. In the past, we have had to replace certain components and provide remediation in response to the discovery of defects or bugs in products that we had shipped. Although the cost of such remediation has not been material in the past, there can be no assurance that such a remediation, depending on the product involved, would not have a material impact. An inability to cure a product defect could result in the failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, inventory costs, or product reengineering expenses, any of which could have a material impact on our revenue, margins, and net income.

Industry consolidation may lead to increased competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.

Due to the global nature of our operations, political or economic changes or other factors in a specific country or region could harm our costs, expenses, and financial condition.

We conduct significant sales and customer support operations in countries outside of the United States and also depend on non-U.S. operations of our contract manufacturers and our distribution partners. For the first quarter of fiscal 2005 and the first quarter of fiscal 2006, we derived 46.9% and 47.6% of our net sales, respectively, from sales outside the United States. Accordingly, our future results could be materially adversely affected by a variety of uncontrollable and changing factors, including, among others, foreign currency exchange rates; political or social unrest, economic instability or natural disasters in a specific country or region; environmental and trade protection measures and other regulatory requirements, which may affect our ability to import our products to, export our products from, or sell our products in various countries; political considerations that affect service provider and government spending patterns; health or similar issues, such as an epidemic; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries. Any or all of these factors could have a material adverse impact on our costs, expenses, and financial condition.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to nondollar-denominated sales in Japan, Canada, and Australia

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and certain nondollar-denominated operating expenses in Europe, Latin America, and Asia, where we sell primarily in U.S. dollars. Additionally, we have exposures to emerging market currencies, which can have extreme currency volatility. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent that we must purchase components in foreign currencies.

Currently, we enter into foreign exchange forward contracts to reduce the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments, and payables. In addition, we periodically hedge anticipated foreign currency cash flows. Our attempts to hedge against these risks may not be successful, resulting in an adverse impact on our net income.

We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets, which could result in material losses.

Most of our sales are on an open credit basis, with typical payment terms of 30 days in the United States and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Beyond our open credit arrangements, we have also experienced demands for customer financing and facilitation of leasing arrangements. We expect demand for customer financing to continue. We believe customer financing is a competitive factor in obtaining business, particularly in supplying customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services and for working capital purposes. We do not recognize revenue on structured loan financing arrangements until cash payments are received.

Our exposure to the credit risks relating to our financing activities described above may increase if there is an economic slowdown. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks. There have been significant bankruptcies among customers both on open credit and with loan or lease financing arrangements, particularly among Internet businesses and service providers, causing us to incur economic or financial losses. There can be no assurance that additional losses will not be incurred. Although these losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. A portion of our sales is derived through our distributors and retail partners. These distributors and retail partners are generally given business terms that allow them to return a portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such business terms. However, distributors tend to have more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk because they may be more likely to lack the reserve resources to meet payment obligations.

Our proprietary rights may prove difficult to enforce.

We generally rely on patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, or circumvented or that our rights will, in fact, provide competitive advantages to us. Furthermore, many key aspects of networking technology are governed by industrywide standards, which are usable by all market entrants. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. In addition, the laws of some foreign countries may not protect our proprietary rights to the same

extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled us to be successful.

We may be found to infringe on intellectual property rights of others.

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Further, in the past, third parties have made infringement and similar claims after we have acquired technology that had not been asserted prior to our acquisition.

We rely on the availability of third-party licenses.

Many of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products.

Our operating results and future prospects could be materially harmed by uncertainties of regulation of the internet.

Currently, few laws or regulations apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we

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operate. Such regulations could include matters such as voice over the Internet or using IP, encryption technology, sales taxes on Internet product sales, and access charges for Internet service providers. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products and, at the same time, increase the cost of selling our products, which could have a material adverse effect on our business, operating results, and financial condition.

Changes in telecommunications regulation and tariffs could harm our prospects and future sales.

Changes in telecommunications requirements in the United States or other countries could affect the sales of our products. In particular, we believe that there may be future changes in U.S. telecommunications regulations that could slow the expansion of the service providers network infrastructures and materially adversely affect our business, operating results, and financial condition. Future changes in tariffs by regulatory agencies or application of tariff requirements to currently untariffed services could affect the sales of our products for certain classes of customers. Additionally, in the United States, our products must comply with various Federal Communications Commission requirements and regulations. In countries outside of the United States, our products must meet various requirements of local telecommunications authorities. Changes in tariffs or failure by us to obtain timely approval of products could have a material adverse effect on our business, operating results, and financial condition.

Failure to retain and recruit key personnel would harm our ability to meet key objectives.

Our success has always depended in large part on our ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. Competition for these personnel is intense, especially in the Silicon Valley area of Northern California. Stock option grants are designed to reward employees for their long-term contributions and provide incentives for them to remain with us. Volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our stock incentive program, may also adversely affect our ability to retain key employees, virtually all of whom have been granted stock options. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions. In addition, companies in the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

Adverse resolution of litigation may harm our operating results or financial condition.

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 1, Legal Proceedings, contained in Part II of our Quarterly Report on Form 10-Q for the period ended October 29, 2005 incorporated by reference in this prospectus supplement.

Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

In July 2005, the FASB issued an Exposure Draft of a proposed Interpretation Accounting for Uncertain Tax Positions an interpretation of FASB Statement No. 109. The proposed Interpretation proposes changes to the current accounting for uncertain tax positions. While we cannot predict with certainty the rules in the final Interpretation, there is risk that the final Interpretation could result in a cumulative effect charge to earnings upon adoption, increases in future effective tax rates, and/or increases in future interperiod effective tax rate volatility.

Our business and operations are especially subject to the risks of earthquakes, floods, and other natural catastrophic events.

Our corporate headquarters, including certain of our research and development operations and our manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, a certain number of our facilities, including one of our manufacturing facilities, are located near rivers that have experienced flooding in the past. A significant natural disaster, such as an earthquake, a hurricane or a flood, could have a material adverse impact on our business, operating results, and financial condition.

Manmade problems such as computer viruses or terrorism may disrupt our operations and harm our operating results.

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results, and financial condition. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may meet with resistance. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the U.S. and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Similarly, events such as widespread blackouts could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, our business, operating results, and financial condition could be materially and adversely affected.

We are exposed to fluctuations in the market values of our portfolio investments and in interest rates; impairment of our investments could harm our earnings.

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on our consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Part of this portfolio includes equity investments in publicly traded companies, the values of which are subject to market price volatility to the extent unhedged. If the public equities market declines, we may recognize in earnings the decline in fair value of our publicly traded equity investments below the cost basis when the decline is judged to be other-than-temporary. For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to the section titled Quantitative and Qualitative Disclosures About Market Risk included in our Quarterly Report on Form 10-Q for the period ended October 29, 2005 and in our Annual Report on Form 10-K for the year ended July 30, 2005 all incorporated by reference in this prospectus supplement. Our investments in private companies are subject to risk of loss of investment capital. These investments are inherently risky because the markets for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire investment in these companies.

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If we do not successfully manage our strategic alliances, we may experience increased competition or delays in product development.

We have several strategic alliances with large and complex organizations and other companies with whom we work to offer complementary products and services. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. If successful, these relationships may be mutually beneficial and result in industry growth. However, these alliances carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic alliance and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties.

Beginning with fiscal 2006, we are required to recognize expense for stock based compensation related to employee stock options and employee stock purchases, and there is no assurance that the expense that we are requir