

RESULTS OF OPERATIONS

A discussion regarding our financial condition and results of operations for fiscal 2019 compared to fiscal 2018 is presented below. A discussion regarding our financial condition and results of operations for fiscal 2018 compared to fiscal 2017 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018, filed with the SEC on September 6, 2018, which is available free of charge on the SEC's website at www.sec.gov and our Investor Relations website at investor.cisco.com.

Revenue

The following table presents the breakdown of revenue between product and service (in millions, except percentages):

	Years Ended			2019 vs. 2018	
	July 27, 2019 ⁽¹⁾	July 28, 2018	July 29, 2017	Variance in Dollars	Variance in Percent
Revenue:					
Product	\$ 39,005	\$ 36,709	\$ 35,705	\$ 2,296	6%
Percentage of revenue	75.1%	74.4%	74.4%		
Service	12,899	12,621	12,300	278	2%
Percentage of revenue	24.9%	25.6%	25.6%		
Total	<u>\$ 51,904</u>	<u>\$ 49,330</u>	<u>\$ 48,005</u>	<u>\$ 2,574</u>	5%

⁽¹⁾Total revenue, product revenue and service revenue not including the SPVSS business in the prior year increased 7%, 8% and 3%, respectively.

We manage our business on a geographic basis, organized into three geographic segments. Our revenue, which includes product and service for each segment, is summarized in the following table (in millions, except percentages):

	Years Ended			2019 vs. 2018	
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars	Variance in Percent
Revenue:					
Americas	\$ 30,927	\$ 29,070	\$ 28,351	\$ 1,857	6%
Percentage of revenue	59.6%	58.9%	59.1%		
EMEA	13,100	12,425	12,004	675	5%
Percentage of revenue	25.2%	25.2%	25.0%		
APIC	7,877	7,834	7,650	43	1%
Percentage of revenue	15.2%	15.9%	15.9%		
Total	<u>\$ 51,904</u>	<u>\$ 49,330</u>	<u>\$ 48,005</u>	<u>\$ 2,574</u>	5%

Amounts may not sum and percentages may not recalculate due to rounding.

Total revenue in fiscal 2019 increased by 5% compared with fiscal 2018. Product revenue increased by 6% and service revenue increased by 2%. Our total revenue reflected growth across each of our geographic segments. Product revenue for the BRICM countries, in the aggregate, experienced 1% product revenue decline, driven by a 16% decrease in product revenue in China and a decrease of 1% in Brazil. These decreases were partially offset by increased product revenue in Mexico, Russia and India of 26%, 6% and 5%, respectively.

In addition to the impact of macroeconomic factors, including a reduced IT spending environment and reductions in spending by government entities, revenue by segment in a particular period may be significantly impacted by several factors related to revenue recognition, including the complexity of transactions such as multiple performance obligations; the mix of financing arrangements provided to channel partners and customers; and final acceptance of the product, system, or solution, among other factors. In addition, certain customers tend to make large and sporadic purchases, and the revenue related to these transactions may also be affected by the timing of revenue recognition, which in turn would impact the revenue of the relevant segment.

Product Revenue by Segment

The following table presents the breakdown of product revenue by segment (in millions, except percentages):

	Years Ended			2019 vs. 2018	
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars	Variance in Percent
Product revenue:					
Americas	\$ 22,754	\$ 21,088	\$ 20,487	\$ 1,666	8%
Percentage of product revenue	58.3%	57.5%	57.4%		
EMEA	10,246	9,671	9,369	575	6%
Percentage of product revenue	26.3%	26.3%	26.2%		
APJC.....	6,005	5,950	5,849	55	1%
Percentage of product revenue	15.4%	16.2%	16.4%		
Total	<u>\$ 39,005</u>	<u>\$ 36,709</u>	<u>\$ 35,705</u>	<u>\$ 2,296</u>	6%

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Americas

Product revenue in the Americas segment increased by 8%, driven by growth in the enterprise, public sector and commercial markets. These increases were partially offset by a product revenue decline in the service provider market. From a country perspective, product revenue increased by 9% in the United States, 26% in Mexico and 6% in Canada, partially offset by a product revenue decrease of 1% in Brazil.

EMEA

The increase in product revenue in the EMEA segment of 6% was driven by growth in the public sector and enterprise markets, partially offset by a decline in the service provider market. Product revenue in the commercial market was flat. Product revenue from emerging countries within EMEA increased by 9%, and product revenue for the remainder of the EMEA segment increased by 5%.

APJC

Product revenue in the APJC segment increased by 1%, driven by growth in the public sector and enterprise markets, partially offset by declines in the service provider and commercial markets. From a country perspective, product revenue increased by 9% in Japan and 5% in India, partially offset by a product revenue decrease of 16% in China.

Product Revenue by Groups of Similar Products

In addition to the primary view on a geographic basis, we also prepare financial information related to groups of similar products and customer markets for various purposes. We report our product revenue in the following categories: Infrastructure Platforms, Applications, Security, and Other Products. This aligns our product categories with our evolving business model. Prior period amounts have been reclassified to conform to the current period's presentation.

The following table presents revenue for groups of similar products (in millions, except percentages):

	Years Ended			2019 vs. 2018	
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars	Variance in Percent
Product revenue:					
Infrastructure Platforms	\$ 30,191	\$ 28,322	\$ 27,817	\$ 1,869	7%
Applications.....	5,803	5,036	4,568	767	15%
Security	2,730	2,352	2,152	378	16%
Other Products	281	999	1,168	(718)	(72)%
Total	<u>\$ 39,005</u>	<u>\$ 36,709</u>	<u>\$ 35,705</u>	<u>\$ 2,296</u>	6%

Amounts may not sum and percentages may not recalculate due to rounding.

Infrastructure Platforms

The Infrastructure Platforms product category represents our core networking offerings related to switching, routing, wireless, and the data center. Infrastructure Platforms revenue increased by 7%, or \$1,869 million, with growth across the portfolio. Switching had solid growth, with strong revenue growth in campus switching driven by an increase in sales of our intent-based networking Catalyst 9000 Series, and with growth in data center switching driven by increased revenue from our ACI portfolio. Routing experienced modest revenue growth driven by an increase in sales of SD-WAN products, partially offset by weakness in the service provider market. We experienced double digit revenue growth from wireless products driven by increases across the portfolio. Revenue from data center increased driven by higher sales of HyperFlex and our server products.

Applications

The Applications product category includes our collaboration offerings (unified communications, Cisco TelePresence and conferencing) as well as IoT and AppDynamics analytics software offerings. Revenue in our Applications product category increased by 15%, or \$767 million, with double digit growth in unified communications, TelePresence, AppDynamics, and IoT software.

Security

Revenue in our Security product category increased 16%, or \$378 million, driven by higher sales of identity and access, advanced threat security, unified threat management and web security products. The Duo acquisition in the first quarter of fiscal 2019 also contributed to the revenue increase in this product category.

Other Products

The decrease in revenue from our Other Products category was primarily driven by a decrease in revenue from SPVSS business which we divested on October 28, 2018.

Service Revenue by Segment

The following table presents the breakdown of service revenue by segment (in millions, except percentages):

<u>Years Ended</u>	<u>Years Ended</u>			<u>2019 vs. 2018</u>	
	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>	<u>Variance in Dollars</u>	<u>Variance in Percent</u>
Service revenue:					
Americas	\$ 8,173	\$ 7,982	\$ 7,864	\$ 191	2%
Percentage of service revenue	63.4%	63.3%	63.9%		
EMEA	2,854	2,754	2,635	100	4%
Percentage of service revenue	22.1%	21.8%	21.4%		
APJC	1,872	1,885	1,801	(13)	(1)%
Percentage of service revenue	14.5%	14.9%	14.7%		
Total	<u>\$ 12,899</u>	<u>\$ 12,621</u>	<u>\$ 12,300</u>	<u>\$ 278</u>	2%

Amounts may not sum and percentages may not recalculate due to rounding.

Service revenue increased 2%, driven by an increase in software and solution support offerings. Service revenue increased in the Americas and EMEA segments, partially offset by decreased revenue in our APJC segment.

Gross Margin

The following table presents the gross margin for products and services (in millions, except percentages):

<u>Years Ended</u>	<u>AMOUNT</u>			<u>PERCENTAGE</u>		
	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>
Gross margin:						
Product	\$ 24,142	\$ 22,282	\$ 22,006	61.9%	60.7%	61.6%
Service	8,524	8,324	8,218	66.1%	66.0%	66.8%
Total	<u>\$ 32,666</u>	<u>\$ 30,606</u>	<u>\$ 30,224</u>	<u>62.9%</u>	<u>62.0%</u>	<u>63.0%</u>

Product Gross Margin

The following table summarizes the key factors that contributed to the change in product gross margin percentage from fiscal 2018 to fiscal 2019:

	Product Gross Margin Percentage
Fiscal 2018	60.7%
Productivity ⁽¹⁾	1.6%
Product pricing	(0.7)%
Mix of products sold	(0.4)%
Impact from divestiture of SPVSS business	0.5%
Legal and indemnification settlements	0.3%
Others	(0.1)%
Fiscal 2019	61.9%

⁽¹⁾ Productivity includes overall manufacturing-related costs, such as component costs, warranty expense, provision for inventory, freight, logistics, shipment volume, and other items not categorized elsewhere.

Product gross margin increased by 1.2 percentage points driven by productivity improvements, partially offset by unfavorable impacts from product pricing and product mix. Our product gross margin also benefited from the sale of our lower margin SPVSS business during the second quarter of fiscal 2019.

Productivity improvements were driven by cost reductions including value engineering efforts (e.g. component redesign, board configuration, test processes and transformation processes) and continued operational efficiency in manufacturing operations. The negative pricing impact, which was lower than the year-over-year impact we experienced in fiscal 2018, was driven by typical market factors and impacted each of our geographic segments and customer markets. The unfavorable product mix impact was driven by our products within the Infrastructure Platforms product category. Our product gross margin also benefited from the \$127 million charge to product cost of sales recorded in fiscal 2018 related to legal and indemnification settlements.

Service Gross Margin

Our service gross margin percentage increased by 0.1 percentage point due to higher sales volume, partially offset by increased headcount-related and delivery costs.

Our service gross margin normally experiences some fluctuations due to various factors such as the timing of contract initiations in our renewals, our strategic investments in headcount, and the resources we deploy to support the overall service business. Other factors include the mix of service offerings, as the gross margin from our advanced services is typically lower than the gross margin from technical support services.

Gross Margin by Segment

The following table presents the total gross margin for each segment (in millions, except percentages):

Years Ended	AMOUNT			PERCENTAGE		
	July 27, 2019	July 28, 2018	July 29, 2017	July 27, 2019	July 28, 2018	July 29, 2017
Gross margin:						
Americas	\$ 20,338	\$ 18,792	\$ 18,284	65.8%	64.6%	64.5%
EMEA	8,457	7,945	7,855	64.6%	63.9%	65.4%
APJC	4,683	4,726	4,741	59.5%	60.3%	62.0%
Segment total	33,479	31,463	30,880	64.5%	63.8%	64.3%
Unallocated corporate items ⁽¹⁾	(813)	(857)	(656)			
Total	\$ 32,666	\$ 30,606	\$ 30,224	62.9%	62.0%	63.0%

⁽¹⁾ The unallocated corporate items include the effects of amortization and impairments of acquisition-related intangible assets, share-based compensation expense, significant litigation settlements and other contingencies, charges related to asset impairments and restructurings, and certain other charges. We do not allocate these items to the gross margin for each segment because management does not include such information in measuring the performance of the operating segments.

Amounts may not sum and percentages may not recalculate due to rounding.

We experienced a gross margin percentage increase in our Americas segment due to productivity improvements, partially offset by unfavorable impacts from pricing and product mix. The unfavorable product mix impact was driven by products within the Infrastructure Platforms product category. Our gross margin in this segment also benefited from the sale of our lower margin SPVSS business during the second quarter of fiscal 2019.

Product gross margin in our EMEA segment increased due to productivity improvements, partially offset by negative impacts from pricing and mix.

The APJC segment gross margin percentage decrease was due to negative impacts from pricing, partially offset by productivity improvements and favorable product mix. Lower service gross margin also contributed to the decrease in the gross margin in this geographic segment.

The gross margin percentage for a particular segment may fluctuate, and period-to-period changes in such percentages may or may not be indicative of a trend for that segment.

Research and Development (“R&D”), Sales and Marketing, and General and Administrative (“G&A”) Expenses

R&D, sales and marketing, and G&A expenses are summarized in the following table (in millions, except percentages):

	Years Ended			2019 vs. 2018	
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars	Variance in Percent
Research and development	\$ 6,577	\$ 6,332	\$ 6,059	\$ 245	4%
<i>Percentage of revenue</i>	<i>12.7%</i>	<i>12.8%</i>	<i>12.6%</i>		
Sales and marketing	9,571	9,242	9,184	329	4%
<i>Percentage of revenue</i>	<i>18.4%</i>	<i>18.7%</i>	<i>19.1%</i>		
General and administrative	1,827	2,144	1,993	(317)	(15)%
<i>Percentage of revenue</i>	<i>3.5%</i>	<i>4.3%</i>	<i>4.2%</i>		
Total	\$ 17,975	\$ 17,718	\$ 17,236	\$ 257	1%
<i>Percentage of revenue</i>	<i>34.6%</i>	<i>35.9%</i>	<i>35.9%</i>		

R&D Expenses

R&D expenses increased due to higher headcount-related expenses and, to a lesser extent, higher acquisition-related costs, higher contracted services and higher discretionary spending.

We continue to invest in R&D in order to bring a broad range of products to market in a timely fashion. If we believe that we are unable to enter a particular market in a timely manner with internally developed products, we may purchase or license technology from other businesses, or we may partner with or acquire businesses as an alternative to internal R&D.

Sales and Marketing Expenses

Sales and marketing expenses increased due to higher headcount-related expenses, higher discretionary spending and, to a lesser extent, higher contracted services and higher acquisition-related costs, partially offset by lower share-based compensation expense.

G&A Expenses

G&A expenses decreased due to a benefit from the \$400 million litigation settlement with Arista Networks and lower contracted services, partially offset by higher discretionary spending and higher headcount-related expenses.

Effect of Foreign Currency

In fiscal 2019, foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by approximately \$233 million, or 1.3%, compared with fiscal 2018. In fiscal 2018, foreign currency fluctuations, net of hedging, increased the combined R&D, sales and marketing, and G&A expenses by approximately \$93 million, or 0.5%, compared with fiscal 2017.

Amortization of Purchased Intangible Assets

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

<u>Years Ended</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>
Amortization of purchased intangible assets:			
Cost of sales	\$ 624	\$ 640	\$ 556
Operating expenses			
Amortization of purchased intangible assets	150	221	259
Restructuring and other charges	—	—	38
Total	<u>\$ 774</u>	<u>\$ 861</u>	<u>\$ 853</u>

The decrease in amortization of purchased intangible assets was due largely to the purchased intangible assets related to the divestiture of SPVSS business on October 28, 2018, partially offset by amortization from our recent acquisitions.

Restructuring and Other Charges

The following table presents the restructuring and other charges (in millions):

<u>Years Ended</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>
Restructuring and other charges included in operating expenses	\$ 322	\$ 358	\$ 756

We initiated a restructuring plan during fiscal 2018 in order to realign our organization and enable further investment in key priority areas, with estimated pretax charges of \$600 million. In connection with this restructuring plan, we incurred charges of \$322 million during fiscal 2019, and have incurred cumulative charges of \$430 million. We expect this restructuring plan to be substantially completed in the first half of fiscal 2020.

These charges were primarily cash-based and consisted of employee severance and other one-time termination benefits, and other associated costs. We expect to reinvest substantially all of the cost savings from these restructuring actions in our key priority areas. As a result, the overall cost savings from these restructuring actions are not expected to be material for future periods.

Operating Income

The following table presents our operating income and our operating income as a percentage of revenue (in millions, except percentages):

<u>Years Ended</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>
Operating income	\$ 14,219	\$ 12,309	\$ 11,973
Operating income as a percentage of revenue	27.4%	25.0%	24.9%

Operating income increased by 16%, and as a percentage of revenue operating income increased by 2.4 percentage points. These increases resulted primarily from: a revenue increase, a gross margin percentage increase, a benefit from the \$400 million litigation settlement with Arista in the first quarter of fiscal 2019, and lower restructuring and other charges.

Interest and Other Income (Loss), Net

Interest Income (Expense), Net The following table summarizes interest income and interest expense (in millions):

	Years Ended			2019 vs. 2018
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars
Interest income	\$ 1,308	\$ 1,508	\$ 1,338	\$ (200)
Interest expense	(859)	(943)	(861)	84
Interest income (expense), net	<u>\$ 449</u>	<u>\$ 565</u>	<u>\$ 477</u>	<u>\$ (116)</u>

Interest income decreased, driven by a decrease in the average balance of cash and available-for-sale debt investments. The decrease in interest expense was driven by a lower average debt balance, partially offset by the impact of higher effective interest rates.

Other Income (Loss), Net The components of other income (loss), net, are summarized as follows (in millions):

	Years Ended			2019 vs. 2018
	July 27, 2019	July 28, 2018	July 29, 2017	Variance in Dollars
Gains (losses) on investments, net:				
Available-for-sale debt investments	\$ (13)	\$ (242)	\$ (42)	\$ 229
Marketable equity investments	(3)	529	(45)	(532)
Non-marketable equity and other investments	6	11	(46)	(5)
Net gains (losses) on investments	(10)	298	(133)	(308)
Other gains (losses), net	(87)	(133)	(30)	46
Other income (loss), net	<u>\$ (97)</u>	<u>\$ 165</u>	<u>\$ (163)</u>	<u>\$ (262)</u>

The total change in net gains (losses) on available-for-sale debt investments was primarily attributable to lower realized losses as a result of market conditions, and the timing of sales of these investments.

The total change in net gains (losses) on marketable equity investments was attributable to market value fluctuations and the timing of recognition of gains and losses.

The change in net gains (losses) on non-marketable equity and other investments was primarily due to lower realized gains, partially offset by higher unrealized gains.

The change in other gains (losses), net was primarily driven by higher donation expense in the prior year.

Provision for Income Taxes

The provision for income taxes resulted in an effective tax rate of 20.2% for fiscal 2019, compared with 99.2% for fiscal 2018. The net 79.0 percentage point decrease in the effective tax rate was primarily due to the \$10.4 billion mandatory one-time transition tax on accumulated earnings of foreign subsidiaries, foreign withholding tax, and DTA re-measurement recorded during fiscal 2018.

As a result of the adoption of the new accounting standard on share-based compensation in fiscal 2018, our effective tax rate will increase or decrease based upon the tax effect of the difference between the share-based compensation expenses and the benefits taken on the company's tax returns. We recognize excess tax benefits on a discrete basis and therefore anticipate the effective tax rate to vary from quarter to quarter depending on our share price in each period.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 21% and for further explanation of our provision for income taxes, see Note 17 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The following sections discuss the effects of changes in our balance sheet, our capital allocation strategy including stock repurchase program and dividends, our contractual obligations, and certain other commitments and activities on our liquidity and capital resources.

Balance Sheet and Cash Flows

Cash and Cash Equivalents and Investments The following table summarizes our cash and cash equivalents and investments (in millions):

	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>Increase (Decrease)</u>
Cash and cash equivalents	\$ 11,750	\$ 8,934	\$ 2,816
Available-for-sale debt investments	21,660	37,009	(15,349)
Marketable equity securities	3	605	(602)
Total	<u>\$ 33,413</u>	<u>\$ 46,548</u>	<u>\$ (13,135)</u>

The net decrease in cash and cash equivalents and investments from fiscal 2018 to fiscal 2019 was primarily driven by cash returned to shareholders in the form of repurchases of common stock of \$20.7 billion under the stock repurchase program and cash dividends of \$6.0 billion, net cash paid for acquisitions and divestitures of \$2.2 billion, a net decrease in debt of \$1.1 billion, and capital expenditures of \$0.9 billion. These uses of cash were partially offset by cash provided by operating activities of \$15.8 billion and the timing of settlements of investments and other of \$2.0 billion.

In addition to cash requirements in the normal course of business, on July 9, 2019 we announced our intent to acquire Acacia Communications, Inc. (“Acacia”) for a purchase consideration of approximately \$2.6 billion in cash. Additionally, \$0.7 billion of the U.S. transition tax on accumulated earnings for foreign subsidiaries, \$6.0 billion of long-term debt and \$4.2 billion of commercial paper notes outstanding at July 27, 2019, are payable within the next 12 months from the balance sheet date. See further discussion of liquidity and future payments under “Contractual Obligations” and “Liquidity and Capital Resource Requirements” below.

We maintain an investment portfolio of various holdings, types, and maturities. We classify our investments as short-term investments based on their nature and their availability for use in current operations. We believe the overall credit quality of our portfolio is strong, with our cash equivalents and our available-for-sale debt investment portfolio consisting primarily of high quality investment-grade securities. We believe that our strong cash and cash equivalents and investments position allows us to use our cash resources for strategic investments to gain access to new technologies, for acquisitions, for customer financing activities, for working capital needs, and for the repurchase of shares of common stock and payment of dividends as discussed below.

Free Cash Flow and Capital Allocation As part of our capital allocation strategy, we intend to return a minimum of 50% of our free cash flow annually to our shareholders through cash dividends and repurchases of common stock.

We define free cash flow as net cash provided by operating activities less cash used to acquire property and equipment. The following table reconciles our net cash provided by operating activities to free cash flow (in millions):

<u>Years Ended</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>July 29, 2017</u>
Net cash provided by operating activities	\$ 15,831	\$ 13,666	\$ 13,876
Acquisition of property and equipment	(909)	(834)	(964)
Free cash flow	<u>\$ 14,922</u>	<u>\$ 12,832</u>	<u>\$ 12,912</u>

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, the rate at which products are shipped during the quarter (which we refer to as shipment linearity), the timing and collection of accounts receivable and financing receivables, inventory and supply chain management, deferred revenue and the timing and amount of tax and other payments. For additional discussion, see “Part I, Item 1A. Risk Factors” in this report.

We consider free cash flow to be a liquidity measure that provides useful information to management and investors because of our intent to return a stated percentage of free cash flow to shareholders in the form of dividends and stock repurchases. We further regard free cash flow as a useful measure because it reflects cash that can be used to, among other things, invest in our business, make strategic acquisitions, repurchase common stock, and pay dividends on our common stock, after deducting capital investments. A limitation of the utility of free cash flow as a measure of financial performance and liquidity is that the free cash flow does not

represent the total increase or decrease in our cash balance for the period. In addition, we have other required uses of cash, including repaying the principal of our outstanding indebtedness. Free cash flow is not a measure calculated in accordance with U.S. generally accepted accounting principles and should not be regarded in isolation or as an alternative for net cash provided by operating activities or any other measure calculated in accordance with such principles, and other companies may calculate free cash flow in a different manner than we do.

The following table summarizes the dividends paid and stock repurchases (in millions, except per-share amounts):

Years Ended	DIVIDENDS		STOCK REPURCHASE PROGRAM			TOTAL
	Per Share	Amount	Shares	Weighted-Average Price per Share	Amount	Amount
July 27, 2019	\$ 1.36	\$ 5,979	418	\$ 49.22	\$ 20,577	\$ 26,556
July 28, 2018	\$ 1.24	\$ 5,968	432	\$ 40.88	\$ 17,661	\$ 23,629
July 29, 2017	\$ 1.10	\$ 5,511	118	\$ 31.38	\$ 3,706	\$ 9,217

Any future dividends are subject to the approval of our Board of Directors.

On February 13, 2019, our Board of Directors authorized a \$15 billion increase to the stock repurchase program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately \$13.5 billion, with no termination date.

Accounts Receivable, Net The following table summarizes our accounts receivable, net (in millions):

	<u>July 27, 2019</u>	<u>July 28, 2018</u>	Increase (Decrease)
Accounts receivable, net	\$ 5,491	\$ 5,554	\$ (63)

Our accounts receivable net, as of July 27, 2019 decreased by approximately 1% compared with the end of fiscal 2018.

Inventory Supply Chain The following table summarizes our inventories and purchase commitments with contract manufacturers and suppliers (in millions):

	<u>July 27, 2019</u>	<u>July 28, 2018</u>	Increase (Decrease)
Inventories	\$ 1,383	\$ 1,846	\$ (463)

Inventory as of July 27, 2019 decreased by 25% from our inventory balance at the end of fiscal 2018. The decrease in inventory was due primarily to lower deferred cost of sales related to the adoption of ASC 606 in the beginning of our first quarter of fiscal 2019.

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 manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements and our commitment to securing manufacturing capacity.

Our purchase commitments are for short-term product manufacturing requirements as well as for commitments to suppliers to secure manufacturing capacity. Certain of our purchase commitments with contract manufacturers and suppliers relate to arrangements to secure long-term pricing for certain product components for multi-year periods. A significant portion of our reported purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. 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. We believe our inventory and purchase commitments levels are in line with our current demand forecasts.

The following table summarizes our purchase commitments with contract manufacturers and suppliers as of the respective period ends (in millions):

<u>Commitments by Period</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>
Less than 1 year	\$ 4,239	\$ 5,407
1 to 3 years	728	710
3 to 5 years	—	360
Total	<u>\$ 4,967</u>	<u>\$ 6,477</u>

Purchase commitments with contract manufacturers and suppliers decreased by approximately 23% compared to the end of fiscal 2018. On a combined basis, inventories and purchase commitments with contract manufacturers and suppliers decreased by 24% compared with the end of fiscal 2018.

Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility to help ensure competitive lead times with the risk of inventory obsolescence because of rapidly changing technology and customer requirements. We believe the amount of our inventory and purchase commitments is appropriate for our revenue levels.

Financing Receivables and Guarantees The following table summarizes our financing receivables (in millions):

	<u>July 27, 2019</u>	<u>July 28, 2018</u>	<u>Increase (Decrease)</u>
Lease receivables, net	\$ 2,326	\$ 2,576	\$ (250)
Loan receivables, net	5,367	4,939	428
Financed service contracts, net	2,360	2,316	44
Total, net	<u>\$ 10,053</u>	<u>\$ 9,831</u>	<u>\$ 222</u>

Financing Receivables Our financing arrangements include leases, loans, and financed service contracts. Lease receivables include sales-type and direct-financing leases. Arrangements related to leases are generally collateralized by a security interest in the underlying assets. Our loan receivables include customer financing for purchases of our hardware, software and services and also may include additional funds for other costs associated with network installation and integration of our products and services. We also provide financing to certain qualified customers for long-term service contracts, which primarily relate to technical support services. The majority of the revenue from these financed service contracts is deferred and is recognized ratably over the period during which the services are performed. Financing receivables increased by 2%. We expect to continue to expand the use of our financing programs in the near term.

Financing Guarantees In the normal course of business, third parties may provide financing arrangements to our customers and channel partners under financing programs. The financing arrangements to customers provided by third parties are related to leases and loans and typically have terms of up to three years. In some cases, we provide guarantees to third parties for these lease and loan arrangements. The financing arrangements to channel partners consist of revolving short-term financing provided by third parties, generally with payment terms ranging from 60 to 90 days. In certain instances, these financing arrangements result in a transfer of our receivables to the third party. The receivables are derecognized upon transfer, as these transfers qualify as true sales, and we receive payments for the receivables from the third party based on our standard payment terms.

The volume of channel partner financing was \$29.6 billion, \$28.2 billion, and \$27.0 billion in fiscal 2019, 2018, and 2017, respectively. These financing arrangements facilitate the working capital requirements of the channel partners, and in some cases, we guarantee a portion of these arrangements. The balance of the channel partner financing subject to guarantees was \$1.4 billion and \$1.0 billion as of July 27, 2019 and July 28, 2018, respectively. We could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. Historically, our payments under these arrangements have been immaterial. Where we provide a guarantee, we defer the revenue associated with the channel partner and end-user financing arrangement in accordance with revenue recognition policies, or we record a liability for the fair value of the guarantees. In either case, the deferred revenue is recognized as revenue when the guarantee is removed. As of July 27, 2019, the total maximum potential future payments related to these guarantees was approximately \$218 million, of which approximately \$77 million was recorded as deferred revenue.

Borrowings

Senior Notes The following table summarizes the principal amount of our senior notes (in millions):

	<u>Maturity Date</u>	<u>July 27, 2019</u>	<u>July 28, 2018</u>
Senior notes:			
Floating-rate notes:			
Three-month LIBOR plus 0.50%	March 1, 2019	\$ —	\$ 500
Three-month LIBOR plus 0.34%	September 20, 2019	500	500
Fixed-rate notes:			
4.95%	February 15, 2019	—	2,000
1.60%	February 28, 2019	—	1,000
2.125%	March 1, 2019	—	1,750
1.40%	September 20, 2019	1,500	1,500
4.45%	January 15, 2020	2,500	2,500
2.45%	June 15, 2020	1,500	1,500
2.20%	February 28, 2021	2,500	2,500
2.90%	March 4, 2021	500	500
1.85%	September 20, 2021	2,000	2,000
3.00%	June 15, 2022	500	500
2.60%	February 28, 2023	500	500
2.20%	September 20, 2023	750	750
3.625%	March 4, 2024	1,000	1,000
3.50%	June 15, 2025	500	500
2.95%	February 28, 2026	750	750
2.50%	September 20, 2026	1,500	1,500
5.90%	February 15, 2039	2,000	2,000
5.50%	January 15, 2040	2,000	2,000
Total		\$ 20,500	\$ 25,750

Interest is payable semiannually on each class of the senior fixed-rate notes, each of which is redeemable by us at any time, subject to a make-whole premium. Interest is payable quarterly on the floating-rate notes. We were in compliance with all debt covenants as of July 27, 2019.

Commercial Paper We have a short-term debt financing program in which up to \$10.0 billion is available through the issuance of commercial paper notes. We use the proceeds from the issuance of commercial paper notes for general corporate purposes. We had \$4.2 billion in commercial paper notes outstanding as of July 27, 2019 and no commercial paper notes outstanding as of July 28, 2018.

Credit Facility On May 15, 2015, we entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on May 15, 2020. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the highest of (a) the Federal Funds rate plus 0.50%, (b) Bank of America's "prime rate" as announced from time to time, or (c) LIBOR, or a comparable or successor rate that is approved by the Administrative Agent ("Eurocurrency Rate"), for an interest period of one month plus 1.00%, or (ii) the Eurocurrency Rate, plus a margin that is based on our senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc., provided that in no event will the Eurocurrency Rate be less than zero. We may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$2.0 billion and/or extend the expiration date of the credit facility up to May 15, 2022. This credit agreement requires that we comply with certain covenants, including that we maintain an interest coverage ratio as defined in the agreement. As of July 27, 2019, we were in compliance with the required interest coverage ratio and the other covenants, and we had not borrowed any funds under the credit facility.

Deferred Revenue The following table presents the breakdown of deferred revenue (in millions):

	July 27, 2019	July 28, 2018	Increase (Decrease)
Service	\$ 11,709	\$ 11,431	\$ 278
Product	6,758	8,254	(1,496)
Total	<u>\$ 18,467</u>	<u>\$ 19,685</u>	<u>\$ (1,218)</u>
Reported as:			
Current	\$ 10,668	\$ 11,490	\$ (822)
Noncurrent	7,799	8,195	(396)
Total	<u>\$ 18,467</u>	<u>\$ 19,685</u>	<u>\$ (1,218)</u>

Deferred revenue decreased primarily due to the adoption of ASC 606 in the beginning of our first quarter of fiscal 2019. Of the total deferred revenue decrease related to the adoption of ASC 606 of \$2.8 billion, \$2.6 billion relates to deferred product revenue and \$0.2 billion relates to deferred service revenue. Of the adjustment to deferred product revenue, \$1.3 billion related to our recurring software and subscription offers, \$0.6 billion related to two-tier distribution, and the remainder related to non-recurring software and other adjustments. The decrease related to the adoption of ASC 606 was partially offset by an increase in product deferred revenue during the fiscal year. The increase in deferred service revenue was driven by the impact of contract renewals, partially offset by amortization of deferred service revenue.

Contractual Obligations

The impact of contractual obligations on our liquidity and capital resources in future periods should be analyzed in conjunction with the factors that impact our cash flows from operations discussed previously. In addition, we plan for and measure our liquidity and capital resources through an annual budgeting process. The following table summarizes our contractual obligations at July 27, 2019 (in millions):

July 27, 2019	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Operating leases	\$ 1,179	\$ 441	\$ 494	\$ 190	\$ 54
Purchase commitments with contract manufacturers and suppliers	4,967	4,239	728	—	—
Other purchase obligations	1,490	676	622	98	94
Senior notes	20,500	6,000	5,500	2,250	6,750
Transition tax payable	8,343	749	1,498	2,113	3,983
Other long-term liabilities	1,214	—	220	136	858
Total by period	<u>\$ 37,693</u>	<u>\$ 12,105</u>	<u>\$ 9,062</u>	<u>\$ 4,787</u>	<u>\$ 11,739</u>
Other long-term liabilities (uncertainty in the timing of future payments)	1,428				
Total	<u>\$ 39,121</u>				

Operating Leases For more information on our operating leases, see Note 13 to the Consolidated Financial Statements.

Purchase Commitments with Contract Manufacturers and Suppliers We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. Our purchase commitments are for short-term product manufacturing requirements as well as for commitments to suppliers to secure manufacturing capacity. Certain of our purchase commitments with contract manufacturers and suppliers relate to arrangements to secure long-term pricing for certain product components for multi-year periods. A significant portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. We record a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. See further discussion in "Inventory Supply Chain." As of July 27, 2019, the liability for these purchase commitments was \$129 million and is recorded in other current liabilities and is not included in the preceding table.

Other Purchase Obligations Other purchase obligations represent an estimate of all contractual obligations in the ordinary course of business, other than operating leases and commitments with contract manufacturers and suppliers, for which we have not received the goods or services. Purchase orders are not included in the preceding table as they typically represent our authorization to purchase rather than binding contractual purchase obligations.