Exhibit AA
From: Jim MacCallum <jmaccallum@ptnco.com>
To: phuc@ttranhuc.pucglobal.com
Subject: Re: Warranty and Sales Accruals

FTL.

DATE: Mon, 19 Mar 2001 12:44:14 -0800
To: phuc@ttranhuc.pucglobal.com
From: Jim MacCallum <jmacallum@ptnco.com>
Subject: Re: Warranty and Sales Accruals

Phuc,

Another addendum to my previous emails.

We have the 1, 3, 4, 10 Returns and Allowance reserves which is partly set up to cover return reserves. We are assessing the sufficiency of our reserves.

Jim
At 02:07 PM 3/14/2001 -0800, you wrote:
Jim:
>> Dan wanted me to try to figure out how warranty and sales return accruals are calculated. I'm assuming it is calculated based off of actual RMA's, I would like to understand the methodology of the accruals.
>>
>> Thanks
>>
>> Phuc

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

In re: ) No. C-01-20418-JW
CISCO SYSTEMS, INC., )
SECURITIES LITIGATION )

This document relates to: )

ALL ACTIONS. )

VIDEOTAPED DEPOSITION OF JAMES MCKENZIE MacCALLUM

Wednesday, August 10, 2005
STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

I, Mary Hogan, CM, Certified Shorthand Reporter, do hereby certify:

That the witness in the foregoing deposition was by me duly sworn; that the deposition was then taken before me at the time and place herein set forth; that the testimony and proceedings were reported stenographically by me and later transcribed under my direction and supervision; that the foregoing is a true record of the testimony and proceedings.

In witness whereof, I hereunto set my hand and affixed my signature this 12th day of August, 2005.

Mary Hogan

MARY HOGAN, CM, CSR NO. 5386
A. Just looking at the timing, it looks like I sent it to him before he replied back, so I just was clarifying for him.

Q. And was it true that Cisco was not fully reserved for non-two-tier distributor sales returns?

A. Based on my original calculations that were drafted up in that memo it did look that way, but after further analysis we determined that we were okay.

MS. WEAVER: Okay. And I'll mark as Exhibit 1094 an email bearing Bates Number CIS-PPNPF-0595850.

(Deposition Exhibit Number 1094 was marked for identification)

BY MS. WEAVER:

Q. Is Exhibit 1094 an email that you sent to Mrinalini Ingram while you were at Cisco?

A. Yes, it is.

Q. And do you see that the middle email in Exhibit 1094 is yet another response to Phuc Tran and that's dated 12:44 p.m.?

A. Yes.

Q. And you wrote "Phuc, another addendum to my previous emails, we have the 1, 2, 4, 10 returns and allowance reserve which is partly set up to cover
return reserves. We are assessing the sufficiency of our reserves." Do you see that?

A. Yes.

Q. And what were you referring to in the 1, 2, 4, 10 returns?

A. That's that general reserve we discussed previously, so obviously this is -- I mean, I'm moving pretty fast.

It's a work in process. I've done my memo and I'm looking at the numbers.

Probably acted a little -- little prematurely in putting numbers in the memo and emailing Phuc without having finalized my analysis.

Q. And you forwarded this email to Mrinalini Ingram, is that correct?

A. Yes.

Q. And why?

A. I can't remember if I copied her on the other ones.

I think I had copied her and at least on 1093, so I probably just -- I maybe forgot to copy her on this one, yes, so keeping her in the loop.

MS. WEAVER: I'll mark as Exhibit 1095 a document bearing Bates numbers CIS-PPNPF-0125584.

(Deposition Exhibit Number 1095)
Exhibit BB
Case 5:01-cv-20418-JW     Document 485     Filed 03/13/2006     Page 2 of 6

CONFIDENTIAL

Client Name: Cisco Systems, Inc.
Period End: 07/29/2000

Title: AVR Reserves Memo
Reference: [3]3200 - 4
Type: Created in Notes

Area: 3200 - Accounts receivable (read this document for important information relating to this audit area)
File Section: Assets

Details:

revenue note

Document Status: Reviewed

Completed By:
Jaime Wayland

Reviewed By:
James W. Sullivan

Review Categorization:

Maintenance

Created By:
Jaime Wayland

Last Modified By:
Jaime Wayland

Editors:
Jaime Wayland; James W. Sullivan

PWC 017323
Revenue Reserves Summary

<table>
<thead>
<tr>
<th>Non-Dist Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Service Reserves</strong></td>
</tr>
<tr>
<td>1. Specific Bad Debt Reserves (11520) – The Customer Financial Services department provides an analysis of the current estimated specific bad debt A/R exposure. PwC notes that the reserves are separated into several categories as follows:</td>
</tr>
<tr>
<td>• Disputes are reserved depending whether the amounts have been reconciled with the customer or not. Reconciled items are reserved 5% for amounts 91-120 days and 10% of amounts 120-360 days old. Un-reconciled amounts are reserved 10%, 20%, 30%, 50%, and 75% for current, 31-60 days, 61-90 days, and 120-360 days old. Reserve percentages are consistent with prior year.</td>
</tr>
<tr>
<td>• Bankruptcies are reserved 100% for the balance owed to Cisco. This appears reasonable.</td>
</tr>
<tr>
<td>• Collections are reserved 100% for all amounts sent to collection agencies. This appears reasonable.</td>
</tr>
<tr>
<td>• Specific amounts are identified by the Company and are fully reserved.</td>
</tr>
</tbody>
</table>

WW Financial Services is responsible for this reserve. The reserve is updated monthly and reviewed by upper management on a quarterly basis. A detail of all specific reserves are provided on a schedule and discussed in the quarterly meetings.

2. Returns & Allowance / RMA Reserve (11530) – Reserve is to record exposure from issued RMAs and unknown, expected bad debt from receivables. Open RMA's up to 12 months old are tracked by Revenue Accounting on the Metrix report. Revenue Accounting will prepare a schedule, based on the Metrix report, segregating the Open RMA's by month issued and country theatre (US, BV, Japan, Canada and Australia). The reserve balance increases when RMAs are issued and is reduced when the product is returned by the customer. The Company deducts from the Total Open RMA balance the following:

• Open RMA's greater than 12 months as the Company believes these amounts are unlikely to be closed or cancelled;
• Open RMA's related to BV, Canada and Japan as they are reserved by each theatre respectively and;
• Open RMA's for Ingram, Tech Data, and Comstor as they are reserved for in the “Two Tier Product Failure” reserve (acct. 11561).

The remaining balance is reserved for 100%. PwC examined the Worldwide Open RMA’s Reserves Trend report, noting that the methodology appears reasonable and consistent with prior year. PwC recalculated the reserve without exception.

The general bad debt reserve based on the aging of A/R. The reserve is calculated as follows:

| Current | 1% |
| 31-60 days | 2% |
| 61-90 days | 4% |
| 91+ days | 10% |

PWC 017324

Revenue note
11/14/01

Page 1 of 4
PwC notes that the methodology and percentages are consistent with prior year and are used to cover any unknown exposure from any bad debt. Per discussion with Darrel Brinkman, the Company historically has missed accruals for specific items; they were covered under this general accrual. It appears prudent that the Company have this general reserve to cover such accruals.

Finance & Accounting is responsible for this reserve.

3. Specific Service Reserve (11545) — Amount is determined in conjunction with the Customer Advocacy group based on specific, disputed amounts of service receivables. Disputed amounts are categorized and aged. The reserve is determined by aging the disputed amounts and multiplying by a certain reserve percentage:

<table>
<thead>
<tr>
<th>Category</th>
<th>1-30 days</th>
<th>31-60 days</th>
<th>61-90 days</th>
<th>91-120 days</th>
<th>&gt;121 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; $30K</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Resolved</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
<td>75%</td>
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<tr>
<td>Unresolved</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>&lt;$30K</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Customer Advocacy closely monitors the aging and has not experienced large amounts of write-offs to consider changing the reserve percentages.

Customer Advocacy is responsible for this reserve.

**Special Reserves**

1. Global Rebate Reserve (11506) - Reserve for rebate payments due to customers that are tracked through the Global Rebate Tool. Rebate programs are customer specific and are based on a percentage of list or net revenue. Any non-standard (i.e., not based on list or net revenue) that cannot be tracked by the tool is tracked through Rev Trak and reserved for in Corporate A/R Reserve (11565). These non-standard rebates may be based on volume purchases.

WW Sales Finance is responsible for this reserve. PwC notes that rebates listed in this reserve has been tested as a part of revenue testing in w/p series 6000.

2. IBM Rebate Reserve (11507) — This rebate reserve is specifically for IBM. It is a 6% rebate on list price of purchases by IBM and is paid annually.

WW Sales Finance is responsible for this reserve. PwC notes that this rebate has been tested as a part of revenue testing in w/p series 6000.

3. 3rd Party Finance Reserve (11541) — The Company sells portions of its receivables to Deutsche Financial Services without recourse. The Company reserves the 1% discount on receivables estimated to be sold to 3rd parties to cover all exposure. Additionally, exposure related to credit memos is reserved. CS Capital Corp compares actual discounts and credit memos to the reserve and sets a monthly accrual amount. The monthly accrual is reviewed each quarter (Q2 FY00 $500K per month, Q3 FY00 $600K per month). The Company then offsets reserve against actual discounts given to financing parties.

CS Capital Corp is responsible for this reserve.
4. Corporate A/R Reserve (11565) – This reserve account is for reserves determined on the corporate level for any remaining exposures not covered elsewhere. The reserve includes the following:

1) Discounts and Rebates – To record discounts, rebates, and other promotions used to increase sales. These are reserved 100%. PwC notes that rebates listed in this reserve has been tested as a part of revenue testing in w/p series 6000.

2) Ingram Micro – To reserve amounts greater than 60 days past due (>90 days) for Cisco’s largest customer, Ingram Micro.

3) Corporate disti reserve – This reserve is established for unidentified exposures. The reserve is calculated as follows: 3% of disti shipments in excess of the 20% reserve rate established by WW Sales Finance, for the Distributor Corporate Reserve. Please refer to w/p 3200-5 for work performed on the Distributor Corporate Reserve.

4) Other – To reserve miscellaneous other specific amounts such as aged credit card payments, training, and accounts receivable from acquisitions.

5) In transit reserve – 100% reserve on all estimated shipments with FOB destination terms which have not yet reached destination by period end. Japan is responsible for their own in-transit reserve.
6) Credit memo accrual - To reserve for known credit memos. The reserve also includes products not up to specifications for customers where the Company expects future RMA's.

7) Unallocated reserves - for all exposure not specifically identified elsewhere.

Finance and Accounting is responsible for this reserve.

Note: PwC notes that these reserves will be tested as part of Cisco Capital Corp testing performed in section 3975.

- Loan Reserve - Reserve is to record exposure from potential default on loans. Loans are given to fund purchases of Cisco product. Reserve is broken into four categories:

1. Shipped not Funded - Reserves fully amounts shipped but not funded as financing arrangement is not complete (i.e. paperwork has not yet been completed). FirstCom is reserved 50% as loan agreement states that the customer will pay half of all shipments.

2. Funded Tranche A - Reserves 100%, except for EBS which is reserved at 1%, all funded amounts. The financing arrangements are complete for these loans.

3. Equipment COGS Deferral - Deferral of COGS related to equipment in conjunction with CSC loans. Since loans are 100% reserved, the underlying equipment cost is capitalized and amortized over the estimated life of the loans. 80% of the standard COGS are deferred and amortized over 24 months.

4. Funded Tranche B - Non equipment loans to customers are reserved at 25%. Reserve is treated as a marketing expense and does not relate to A/R.

Note: PwC notes that these reserves will be tested as part of Cisco Capital Corp testing performed in section 3975.
Exhibit CC
### Cisco Systems Corporate Revenue

**World Wide Revenue Reserve FLUX Summary**

**April FY01**

APRIL COMPARED TO MARCH

<table>
<thead>
<tr>
<th>March FY01 RESERVES</th>
<th>April FY01 RESERVES</th>
<th>WW FLUX</th>
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<tbody>
<tr>
<td>US</td>
<td>AUS</td>
<td>CAN</td>
</tr>
<tr>
<td>2,202,000</td>
<td>1,572,600</td>
<td>233,280</td>
</tr>
<tr>
<td>60,160</td>
<td>2,280</td>
<td>2,374</td>
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<tr>
<td>165,043</td>
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<td>9,073</td>
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<td>7,147</td>
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<td>287,567</td>
<td>2,487</td>
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<td>19,033</td>
<td>-</td>
<td>1,799</td>
</tr>
<tr>
<td>236,263</td>
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<td>3,674</td>
</tr>
<tr>
<td>328,000</td>
<td>8,044</td>
<td>39,555</td>
</tr>
<tr>
<td>615,751</td>
<td>2,592</td>
<td>17,524</td>
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### AR NON-TWO TIER RESERVES

<table>
<thead>
<tr>
<th>Product/Service Reserve</th>
<th>Specific Bad Debt Reserve (11520)</th>
<th>Returns &amp; Allow (11750)</th>
<th>Open RMA Reserve (11532)</th>
<th>Future Returns Reserve (11532)</th>
<th>Specific Service Reserve (11548)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Service Reserve (11548)</td>
<td>5,788</td>
<td>2,487</td>
<td>11,480</td>
<td>143,765</td>
<td>24,210</td>
</tr>
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<td>-</td>
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<td>-</td>
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<tr>
<td>19,033</td>
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<td>1,799</td>
<td>8,466</td>
<td>1,342</td>
<td>28,650</td>
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<tr>
<td>236,263</td>
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<td>3,674</td>
<td>28,374</td>
<td>2,254</td>
<td>339,354</td>
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<tr>
<td>328,000</td>
<td>8,044</td>
<td>39,555</td>
<td>42,550</td>
<td>416,083</td>
<td>525,362</td>
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### AR TWO TIER DEFERRALS/RESERVES

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<tr>
<th>Tier</th>
<th>Special Reserves</th>
<th>3rd Party Finance Reserve (11541)</th>
<th>In-Transit Reserve (11550)</th>
<th>Global Rebate Reserve (11500)</th>
<th>IBM Rebate Reserve (11507)</th>
<th>Corporate AR Reserve (11566, 11516)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier</td>
<td>5,788</td>
<td>2,487</td>
<td>11,480</td>
<td>143,765</td>
<td>24,210</td>
<td>489,188</td>
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<td>39,555</td>
<td>42,550</td>
<td>416,083</td>
<td>525,362</td>
<td>6</td>
</tr>
</tbody>
</table>

### LEASE & LOAN - LONG TERM

| Lease & Loan Reserve | 1,361,680 | 2,523 | 500 | - | 1,564,843 | 1,871,372 | - | 1,871,372 | 106,682 | 6.8% |

### DEFERRED REVENUE RECOGNITION

| Deferred Revenues (27000) | 344,719 | - | 5,688 | 26,489 | 376,708 | 266,370 | - | 5,600 | 32,067 | - | 437,057 | 60,351 | 16.0% |
| Deferred Software Revenues (27000) | 4,817 | - | 7,483 | - | 5,507 | 4,587 | - | - | - | - | 4,587 | (2,079) | -20.2% |

### TOTAL REVENUE RESERVES

| 3,215,120 | 15,186 | 38,508 | 333,463 | 70,871 | 3,763,206 | 3,703,583 | 10,473 | 40,158 | 365,258 | 41,640 | 4,151,097 | 397,881 | 10.6% |
Exhibit DD
Cisco utilizes contract manufacturers (CMs) for a significant portion of its production process. Cisco has historically had low inventory balances and high turns, due to its out-sourcing model. During the late FY00 and the first quarter of FY01, demand for Cisco products was increasing dramatically. Cisco was experiencing significant component shortages and delivery times for its products were getting to be a problem. In order to meet the expected demand and lower delivery times, Cisco made some business decisions. These decisions included the following: i) made commitments to suppliers in order to obtain allocations from them, ii) loaned companies money for them to expand their manufacturing capacity (to get rights to certain production levels) and iii) loaned many of its CMs the capital needed for them to commit to their suppliers and over-stock component parts (both on Cisco's behalf). Cisco's purchase and/or commitment to buy inventory was during a period where Cisco was estimating year over year revenue growth approximating 60%.

What happened:

It has been well publicized that the demand for capital equipment, networking equipment in particular, was highly impacted in late C00 and early C01. Cisco continued to revise its internal forecasts downward (revenue and material demand). The precipitous drop in demand in Q3 (Cisco initially believed revenue would be flat to down 5% in Q3 vs. Q2; subsequently revised downward to 30%, and revenue forecasts for the fourth quarter and beyond have dropped as well), lead to the Company's need to reserve a large portion of its inventory and accrue costs associated with noncancelable purchase commitments. In total these costs are $2.249 billion (press release estimated the amount at $2.5 billion).

The drop in MDS (master demand schedule) for the period from Q3 FY01 to Q2 FY02 went from $49 billion in January to $22 billion at the end of March. The change in inventory, reserves and purchase commitments are as follows (please note that the below does not tie to the balance sheet as it only includes manufacturing inventory, and excludes items such as demo or add back for product in the channel, etc.):
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Cisco has a consistent process of estimating inventory related reserves. To calculate its reserve for excess and obsolete (E&O), the company utilizes an Oracle report which details which parts in inventory that are in excess of 12 months of demand. This demand is based on the MDS forecast (material demand - which is derived from the revenue forecasts and the production requirements for non-revenue shipments and usage). The company then evaluates all inventory identified as E&O by this report which is greater than $75k, to determine if it is excess or obsolete. Cisco reviews each of these parts to determine if there are i) alternative uses (i.e. another product will utilize that part), ii) changes to bills of material (part could have been ordered for an upcoming change in the configuration of a product) and iii) other exceptions to the MDS forecast.

What has been done:

When Cisco noticed the drop in demand for its products, it continually cut back on its orders to its CMs and suppliers. Contractually Cisco is liable, depending on when changes to the forecasts are made. The decrease in demand caused a significant over supply of inventory and commitments to purchase inventory. In order to mitigate as much of the exposure as possible it has worked with its CMs. It has asked them what each of them believe Cisco owes them or has committed to them. Cisco has reviewed the CM's positions and has pushed back on the CMs where it does not believe it has an obligation (for example if the CM committed to more components that were required based on Cisco’s forecasts to them). For the major CM's and component suppliers, this has been done at a part number basis. The original sizing of the exposure as of the April press release has been reduced by $250 million as a result of this effort.

For CMs which had a loan outstanding, Cisco negotiated a contractual settlement with them. This settlement generally consisted of the following: i) netting of the loan against amounts Cisco owed or will owe the CM, ii) agreement on what components Cisco is responsible for, iii) Cisco taking legal title and risk of loss for these components and iv) agreement for Cisco to lease space at the CM to store all of these excess components. Cisco will continue to evaluate these components to get out of them as quickly as possible. It will first evaluate if there are parts relating to a discontinued product where there is no market for the part (Cisco specific part), and the part can be destroyed. It will continue to evaluate if there are parts that can be sold, but to date the brokers they have hired have communicated that they don't anticipate any salvage value for the excess parts that Cisco owns.

Similar procedures were performed on CMs where a loan was not outstanding. The process included an
evaluation of what the CM presented to Cisco as their obligations. There was significant review and push back to ensure that Cisco was accepting the amount it was financially responsible for. Brokers are going through all the listing of inventory on hand and are not confident there is value in the parts. This is due to the fact that many of the components have added Cisco IP that would need to be removed, where the cost to remove the Cisco IP would be greater than any potential salvage value. Currently there are no buyers for standard components as it appears that most companies have similar over stocking of these parts. Cisco plans to continue to evaluate these parts and will start to destroy these components (it is going to start with parts related to products that have been discontinued and there are no alternative usages for these parts).

Note that this inventory has been separately identified and the portion that is at the CMs will be segregated and tracked. Cisco intends to report in its quarterly and annual statements, if there is any future usage of these components (i.e. it does not have any intention to take these components into margins without disclosing it, contrary to public insinuations).

PwC Q3 Audit procedures:

We have performed the following audit procedures in order to assess the adequacy and reasonableness of the inventory reserves and purchase commitment accruals.

- Reviewed the detailed inventory schedules that Cisco prepares monthly to support their reserve positions (as this is a consistent approach many of the schedules are the same ones as every other month. There are some new reports based on the additional work at the CMs and other analysis used to ensure that the reserves/accruals were reasonable). Samples of individual inventory components were reviewed to check the accuracy of the calculated reserve requirements.
- Reviewed the agreements with the CMs, to finalize the loan and take title to the components that were committed to.
- In detailed reviewed the E&O report and process. This includes comparisons to prior quarter to ensure the process is consistently being applied.
- Reviewing the MDS and the changes from the second quarter which highlighted the business change that caused the reserve/accrual need.
- Review the reconciliation of gross and net inventory and purchase commitments. Additionally, review the break out between INC. and BV.
- Inquiries of senior financial personnel including the CFO and Controller
- Comparison of the forecast to public statements made by Chambers etc. to compare consistency with Demand forecast to the messages delivered in these statements.
- We have evaluated the classification of the inventory reserve vs. accrued loss on purchase commitments (legal title and risk of loss).

Conclusion:

Our procedures have demonstrated that Cisco has applied a consistent approach, that management has evaluated the reserves employing their judgment and have arrived at their best estimate. We will obtain management’s representation to this as part of our quarterly review (annual representation letter as well). Based on our review procedures we believe that management’s reserve/accrual are reasonable, adequate but not excessive. We have discussed this matter with the audit committee chairman. This matter will be discussed further with the audit committee in the May 8th pre-release call and the May 10th full audit committee.
Refer to work performed at workpaper 7800-600.

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<thead>
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<th>Date:</th>
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</thead>
<tbody>
<tr>
<td>Dan George</td>
<td>05/19/2001</td>
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<tbody>
<tr>
<td>Raman Chitkara</td>
</tr>
<tr>
<td>Steve Meisel</td>
</tr>
<tr>
<td>Tony Fuell</td>
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<tbody>
<tr>
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<td>Tony Fuell</td>
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Review Categorization:
Engagement leader

Maintenance

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<td>Michael A. Jerome</td>
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Editors:
Dan George; Tony Fuell; Steve Meisel;
Raman Chitkara; Michael A. Jerome
Exhibit EE
Title: Flux analysis - by inventory type
Reference: [3] 3400 - 7
Type: Created in Notes

Area: 3400 - Inventory
File Section: Assets

Details:
For flux analysis:

Procedures
Ensure the following flux analysis is performed by discussion with Dawn Hartman (Manufacturing Finance):

- obtain a breakdown of gross inventory by class as at 11/27/99 with the appropriate comparative as at 07/25/99 (prior year end)
- obtain the data for calculation of the inventory turn days as at 11/27/99 and at 07/25/99
- identify significant movements in the balances/ratio from prior year to current period end
- identify movements that are not in line with expectations given discussions with manufacturing finance management
- for significant movements obtain management comment and seek further corroboration as and when appropriate
- where explanations/further evidence are inadequate perform flux analysis by key product to seek further comfort on fluctuations in the 4 month period

Comments
The following data is appropriate for the flux analysis:
<table>
<thead>
<tr>
<th></th>
<th>P4 2000</th>
<th>P12 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>RM Gross</td>
<td>314,738</td>
<td>257,177</td>
</tr>
<tr>
<td>%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>WIP Gross</td>
<td>397,636</td>
<td>362,871</td>
</tr>
<tr>
<td>%</td>
<td>36%</td>
<td>36%</td>
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<tr>
<td>FG Gross</td>
<td>234,252</td>
<td>275,673</td>
</tr>
<tr>
<td>%</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>Demo Gross</td>
<td>168,103</td>
<td>132,192</td>
</tr>
<tr>
<td>%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>GROSS Total</td>
<td>1,114,729</td>
<td>1,027,913</td>
</tr>
<tr>
<td>%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Reserves Total</td>
<td>(468,500)</td>
<td>(376,118)</td>
</tr>
<tr>
<td>TOTAL Net</td>
<td>646,229</td>
<td>651,795</td>
</tr>
</tbody>
</table>

**Analysis $million**

- Monthly COGS: 479, 353
- Annualised COGS: 5,748, 4,233
- Opening inventory: 660, 308
- Closing inventory: 646, 652
- Average inventory: 653, 480
- Inventory turn: 8.80, 8.82

The following points are of note:

1. The increase in raw materials on-hand by 22% to $315m is principally due to the need to buy-in to larger holdings of memory. With Cisco currently enduring a market with rising memory prices, management took the decision to increase the holding of memory 2/3 months ago to ride the price increase.

2. The reduction in finished goods by $42m to $234m is down to the ad-hoc nature at which large orders flow through the inventory process. At the prior year end there were a number of large contracts at the 'completion' stage (namely AT&T, PacBell) thus increasing the value of finished goods.

The inventory turn has remained consistent on prior year. It remains management intention to push the turn as close to 10 as possible.

No further matters noted.
Exhibit FF
LENGTH: 18359 words

OFFICIAL RELEASES

STATEMENT OF POSITION 97-2—SOFTWARE REVENUE RECOGNITION

HIGHLIGHT:

Space considerations prevent publishing here the appendices to SOP 97-2. Since the appendices often are important to understanding SOPs, readers are advised to obtain complete copies. To obtain a copy of SOP 97-2 (product no. 014897JA), contact the AICPA order department at (800) 862-4272.

TEXT:

[*106] NOTE
Statements of Position on accounting issues present the conclusions of at least two thirds of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report, identifies AICPA Statements of Position that have been cleared by the Financial Accounting Standards Board as sources of established accounting principles in category b of the hierarchy of generally accepted accounting principles that it establishes. AICPA members should consider the accounting principles in this Statement of Position if a different accounting treatment of a transaction or event is not specified by a pronouncement covered by rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by the Statement of Position should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

SUMMARY
This Statement of Position (SOP) provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. This SOP supersedes SOP 91-1, Software Revenue Recognition. This SOP requires the following:

- If an arrangement to deliver software or a software system does not require significant production, modification, or customization of software, revenue should be recognized when all of the following criteria are met.
  — Persuasive evidence of an arrangement exists.
  — Delivery has occurred.
  — The vendor's fee is fixed or determinable.
  — Collectibility is probable.

- Software arrangements may consist of multiple elements, that is, additional software products, upgrades/enhancements, postcontract customer support (PCS), or services, including elements deliverable only on a when-and-if-available basis. If contract accounting does not apply, the vendor's fee must be allocated to the various elements based on vendor-specific objective evidence of fair values. If sufficient vendor-specific objective evidence of fair values does not exist, all revenue from the arrangement should be deferred until such sufficient evidence exists, or until all elements have been delivered. Exceptions to this guidance are provided for PCS, services that do not involve
significant customization, subscriptions, and arrangements in which the fee is based on the number of copies.

. Vendor-specific objective evidence of fair value is limited to (a) the price charged when the element is sold separately, or (b) if the element is not yet being sold separately, the price for each element established by management having the relevant authority.

. The portion of the fee allocated to an element should be recognized as revenue when all of the revenue recognition criteria have been met. In applying those criteria, the delivery of an element is considered not to have occurred if there are undelivered elements that are essential to the functionality of any delivered elements. Additionally, the collectibility of that portion of the fee is not considered probable if the amount of the fees allocable to delivered elements is subject to forfeiture, refund, or other concession if the undelivered elements are not delivered.

. Separate accounting for a service element of an arrangement is required if both of the following criteria are met.
   —The services are not essential to the functionality of any other element of the transaction.
   —The services are described in the contract such that the total price of the arrangement would be expected to vary as the result of inclusion or exclusion of the services.

   If an arrangement to deliver software or a software system, either alone or together with other products or services, requires significant production, modification, or customization of software, the entire arrangement should be accounted for in conformity with Accounting Research Bulletin (ARB) No. 45, Long-Term Construction-Type Contracts, using the relevant guidance in SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, unless criteria specified herein for separate accounting for any service element are met.

This SOP is effective for transactions entered into in fiscal years beginning after December 15, 1997. Earlier application is encouraged as of the beginning of fiscal years or interim periods for which financial statements or information have not been issued. Retroactive application of the provisions of this SOP is prohibited.

FOREWORD
The accounting guidance contained in this document has been cleared by the Financial Accounting Standards Board (FASB). The procedure for clearing accounting guidance in documents issued by the Accounting Standards Executive Committee (AcSEC) involves the FASB reviewing and discussing in public board meetings (a) a prospectus for a project to develop a document, (b) a proposed exposure draft that has been approved by at least ten of AcSEC's fifteen members, and (c) a proposed final document that has been approved by at least ten of AcSEC's fifteen members. The document is cleared if at least five of the seven FASB members do not object to AcSEC undertaking the project, issuing the proposed exposure draft or, after considering the input received by AcSEC as a result of the issuance of the exposure draft, issuing the final document.

The criteria applied by the FASB in their review of proposed projects and proposed documents include the following:
   a. The proposal does not conflict with current or proposed accounting requirements, unless it is a limited circumstance, usually in specialized industry accounting, and the proposal adequately justifies the departure.
   b. The proposal will result in an improvement in practice.
   c. The AICPA demonstrates the need for the proposal.
   d. The benefits of the proposal are expected to exceed the cost of applying it.

In many situations, prior to clearance, the FASB will propose suggestions, many of which are included in the documents.

INTRODUCTION
1. Statement of Position (SOP) 91-1, Software Revenue Recognition, was issued in 1991 to provide guidance on applying generally accepted accounting principles to software transactions and to narrow the range of revenue recognition practices that were in use before its issuance. Since the issuance of SOP 91-1, practice issues have been identified that the AICPA's Accounting Standards Executive Committee (AcSEC) believes are not addressed adequately in SOP 91-1. In addition, AcSEC believes some of the guidance in SOP 91-1 should be reconsidered. This SOP supersedes SOP 91-1.

SCOPE
2. This SOP provides guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing, or otherwise marketing computer software. It should be applied to those activities by all entities that earn such revenue.
It does not apply, however, to revenue earned on products or services containing software that is incidental n2 to the products or services as a whole.

n1 Terms defined in the glossary are set in boldface type the first time they appear in this SOP.

n2 Indicators of whether software is incidental to a product as a whole include (but are not limited to) (a) whether the software is a significant focus of the marketing effort or is sold separately, (b) whether the vendor is providing postcontract customer support, and (c) whether the vendor incurs significant costs that are within the scope of FASB Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. An example of the applicability of this SOP to revenue earned on products containing software is included in appendix A, "Examples of the Application of Certain Provisions of This Statement of Position."

3. In connection with the licensing of an existing product, a vendor might offer a small discount (for example, a coupon or other form of offer for five percent off) on additional licenses of the licensed product or other products that exist at the time of the offer but are not part of the arrangement. Such marketing and promotional activities are not unique to software and are not included in the scope of this SOP. n3

n3 As discussed in paragraph 9, arrangements may include multiple elements. If the discount or other concessions in an arrangement are more than insignificant, a presumption is created that an additional element(s) (as defined in paragraph 9) is being offered in the arrangement.

RELATIONSHIP TO OTHER PRONOUNCEMENTS

4. If a lease of software includes property, plant, or equipment, the revenue attributable to the property, plant, or equipment should be accounted for in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 13, Accounting for Leases, and any revenue attributable to the software, including postcontract customer support (PCS), should be accounted for separately in conformity with the guidance set forth in this SOP. However, in conformity with paragraph 2, if the property, plant, or equipment contains software that is incidental to the property, plant, or equipment as a whole, the software should not be accounted for separately.

5. A number of the requirements of this SOP are similar to or overlap those in certain pronouncements of the Accounting Principles Board (APB) or the FASB, such as FASB Statement No. 48, Revenue Recognition When Right of Return Exists. This SOP does not alter the requirements of any APB Opinion or FASB pronouncement.

CONCLUSIONS

6. The following conclusions should be read in conjunction with the "Basis for Conclusions" section, beginning with paragraph 93 of this SOP, and the examples in appendix A, "Examples of the Application of Certain Provisions of this SOP."

Basic Principles

7. Software arrangements range from those that provide a license for a single software product to those that, in addition to the delivery of software or a software system, require significant production, modification, or customization of software. If an arrangement to deliver software or a software system, either alone or together with other products or services, requires significant production, modification, or customization of software, the entire arrangement should be accounted for in conformity with Accounting Research Bulletin (ARB) No. 45, Long-Term Construction-Type Contracts, using the relevant guidance herein, and in SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

n4 If a software arrangement includes services that meet the criteria discussed in paragraph 65 of this SOP, those services should be accounted for separately.

8. If the arrangement does not require significant production, modification, or customization of software, revenue should be recognized when all of the following criteria are met.

. Persuasive evidence of an arrangement exists.
. Delivery has occurred.
. The vendor's fee is fixed or determinable.
. Collectibility is probable. n5
n5 The term probable is used in this SOP with the same definition as used in FASB Statement No. 5, Accounting for Contingencies.

9. Software arrangements may provide licenses for multiple software deliverables (for example, software products, upgrades/enhancements, PCS, or services), which are termed multiple elements. A number of the elements may be described in the arrangement as being deliverable only on a when-and-if-available basis. When-and-if-available deliverables should be considered in determining whether an arrangement includes multiple elements. Accordingly, the requirements of this SOP with respect to arrangements that consist of multiple elements should be applied to all additional products and services specified in the arrangement, including those described as being deliverable only on a when-and-if-available basis.

10. If an arrangement includes multiple elements, the fee should be allocated to the various elements based on vendor-specific objective evidence of fair value, regardless of any separate prices stated within the contract for each element. Vendor-specific objective evidence of fair value is limited to the following:

   . The price charged when the same element is sold separately
   
   . For an element not yet being sold separately, the price established by management having the relevant authority; it must be probable that the price, once established, will not change before the separate introduction of the element into the marketplace

   The amount allocated to undelivered elements is not subject to later adjustment. n6 However, if it becomes probable that the amount allocated to an undelivered element will result in a loss on that element of the arrangement, the loss should be recognized pursuant to FASB Statement No. 5, Accounting for Contingencies. When a vendor's pricing is based on multiple factors such as the number of products and the number of users, the amount allocated to the same element when sold separately must consider [*108] all the factors of the vendor's pricing structure.

n6 This does not apply to changes in the estimated percentage of customers not expected to exercise an upgrade right. See paragraph 37.

11. If a discount is offered in a multiple-element arrangement, a proportionate amount of that discount should be applied to each element included in the arrangement based on each element's fair value without regard to the discount. However, as discussed in paragraph 37, no portion of the discount should be allocated to any upgrade rights.

12. If sufficient vendor-specific objective evidence does not exist for the allocation of revenue to the various elements of the arrangement, all revenue from the arrangement should be deferred until the earlier of the point at which (a) such sufficient vendor-specific objective evidence does exist or (b) all elements of the arrangement have been delivered. The following exceptions to this guidance are provided:

   . If the only undelivered element is PCS, the entire fee should be recognized ratably (see paragraphs 56 through 62).
   
   . If the only undelivered element is services that do not involve significant production, modification, or customization of software (for example, training or installation), the entire fee should be recognized over the period during which the services are expected to be performed (see paragraphs 63 through 71).
   
   . If the arrangement is in substance a subscription, the entire fee should be recognized ratably (see paragraphs 48 and 49).
   
   . If the fee is based on the number of copies, the arrangement should be accounted for in conformity with paragraphs 43 through 47.

13. The portion of the fee allocated to an element should be recognized as revenue when the criteria in paragraph 8 of this SOP are met with respect to the element. In applying those criteria, the delivery of an element is considered not to have occurred if there are undelivered elements that are essential to the functionality of the delivered element, because the customer would not have the full use of the delivered element.

14. No portion of the fee (including amounts otherwise allocated to delivered elements) meets the criterion of collectibility if the portion of the fee allocable to delivered elements is subject to forfeiture, refund, or other concession if any of the undelivered elements are not delivered. In order for the revenue related to an arrangement to be considered not subject to forfeiture, refund, or other concession, management must intend not to provide refunds or concessions that are not required under the provisions of the arrangement. All available evidence should be considered to determine whether the evidence persuasively indicates that the revenue is not subject to forfeiture, refund, or other concession. Although no single item of evidence may be persuasive, the following additional items should be considered:
Exhibit GG
Report to the Audit Committee of the Board of Directors

Results of the 2000 Audit
August 8, 2000

The Audit Committee of the Board of Directors of Cisco Systems, Inc.

We are pleased to have the opportunity to meet with you to discuss the results of our examination of the financial statements of Cisco Systems, Inc. ("Cisco or the Company") for the year ended July 29, 2000.

The accompanying report presents information regarding our examination and certain other information which we believe will be of interest and assistance to the Audit Committee. Our report is intended solely for the use of the Audit Committee and management.

We would like to thank you for your support during fiscal 2000. The success of this year's audit was accomplished through the effective support and the assistance of the Company's finance, operational and administrative personnel.

We look forward to meeting with you to present this report and address any questions you may have.

Yours very truly,

PricewaterhouseCoopers LLP
Table of Contents

- Results of the 2000 Audit
- Internal Control
- Significant Items for Discussion
- Summary of Unadjusted Differences
- Responsibility to the Board of Directors
- Executive Level Recommendations
Results of 2000 Audit

We have completed our audit of the Company's consolidated financial statements for the year ended July 29, 2000.

Our audit was performed in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The consolidated financial statements referred to above are the responsibility of management.

The scope of our audit is consistent with our planning report we presented to you in the September 21, 1999 audit committee meeting.

We will issue an unqualified opinion dated August 8, 2000.

Management informed us about an instance of fraud conducted by Cisco employees in connection with a customer. Management has taken action against the employees involved and filed a lawsuit against the customer. During our audit we did not become aware of any other illegal acts or conflicts of interest by the officers or employees of the Company.
Results of 2000 Audit

- There were no disagreements with management which, if not satisfactorily resolved, would have required us to qualify our opinion.
- During our audit, we received the full cooperation of management and employees.
- All proposed adjustments deemed material were recorded by management.
- We will review management's discussion and analysis of financial condition and results of operations and other disclosures included in the Annual Report on Form 10-K to ensure that such disclosures are consistent with the consolidated financial statements.
- We have reviewed internal Audit's reports issued during the current year. The domestic and foreign teams have leveraged the work of internal Audit.
Internal Control

- We considered the Company's internal control structure in order to determine our audit procedures, not to provide assurance on the internal control structure.
- Our audit would not necessarily disclose all material weaknesses. A material weakness is a condition in which the design or operation of an internal control structure element does not reduce to a relatively low level of risk that errors or irregularities in material amounts may occur and not be detected within a timely period.
- We noted no matters involving the internal control structure or its operation that we consider to be material weaknesses. We did however, note certain areas for improvement involving the internal controls which have been summarized in the Executive Level Recommendations in this report and other less significant comments will be provided to management.
Significant Items for Discussion

Business Combinations

- Poolings of interests - The Company completed the acquisitions of Cerent, ArrowPoint, SightPath, InfoGear, Growth, Compatible, V-Bits, Webline, Cocom, StratumOne, Transmedia and Altiga under the poolings of interests' accounting treatment.

- Purchases - The Company completed the acquisitions of Pirelli Optical Systems, Monterey, Aironet, JetCell, MaxComm, Calista, Tasmania, Atlantech, PentaCom, Internet Engineering, Worldwide Data Systems, Seagull and Qeyton under the purchase method. The Company recorded a total of $1.4 billion of purchase research and development.

- Pending - The Company has announced the firm commitment to acquire the following companies which have not yet closed as purchases: Netiverse, HyNEX, NuSpeed, ipMobile and Komodo.

- Restatements - Cisco restated its historical results due to exceeding the 3% restatement threshold for pooling transactions. Restatements occurred on December 14, 1999 and August 4, 2000.
Significant Items for Discussion

Income Taxes - Stock Option Benefit

- The company has reserved its net deferred tax asset, as management believes that it will not realize the benefit of these assets (does not meet "more likely than not" threshold). As the valuation allowance is due to the stock option deduction, if the benefit is released, the benefit will be credited to equity.

- No EPS impact for FY 00, but management will need to monitor.

Capital Corporation

- Expectation of significant growth. Management is focused on improving systems and controls to ensure scalability.

- Increased complexity of transactions, including obtaining warrants from higher risk customers and providing working capital loans.
### Significant Items for Discussion

#### Revenue Recognition
- Reviewed revenue contracts to ensure proper recording and deferral of revenue.
- Assessed systems and controls around identification and evaluation of non-standard deals.

#### Accounting for Investment
- Accounting for investment approved by the SEC.

#### Need to monitor this and other investments for impairment.

#### Cross license agreement and purchase commitment.

#### The Company amended its Form 10-K to address comments from the SEC on specific disclosures.

#### Derivatives
Summary of Unadjusted Items

- During the course of our field work, we proposed the following adjustments which were not made by management. We have discussed all matters included in this schedule with management and concur with management's conclusion that the individual and aggregate effect of these entries are not material to the fiscal 2000 consolidated financial statements taken as a whole or to the Company's trend of earnings (in millions).

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<thead>
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<td></td>
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<td>To capitalize inventory overhead</td>
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<td>Record building which do not qualify for off balance sheet treatment</td>
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<td>Deferred stock compensation (equity)</td>
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<tr>
<td></td>
<td>Equity</td>
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<tr>
<td></td>
<td>To record variable options</td>
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</tr>
<tr>
<td></td>
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</table>


Responsibility to the Board of Directors

- We reaffirm our awareness of our responsibility to call to the Board's attention, through the Audit Committee, any accounting, auditing, internal accounting control, or other related matters that we believe warrant its consideration or action. These matters include the following:
  - The auditor's responsibility under generally accepted auditing standards. Our audit is designed to obtain reasonable, not absolute, assurance that the consolidated financial statements are fairly stated.
  - The initial selection of and changes in significant accounting policies or their application as well as the accounting for significant or unusual transactions.
  - Management judgments and accounting estimates and significant audit adjustments, whether or not recorded by the Company. Our responsibility for other information in documents containing audited financial statements, any procedures performed and the results of those procedures.
  - Disagreements with management.
  - Consultations by the Company with other accountants.
  - Major issues discussed with management prior to reappointment
  - Difficulties encountered in performing the audit.
  - Significant irregularities identified.
  - Illegal acts identified.
  - Deficiencies in the internal control structure significant enough to preclude preparation of accurate financial information.
  - Significant deficiencies in the control environment, accounting system and control procedures.
- There were no matters to report with respect to the above exceptions except as noted in this report.
Executive Level Recommendations

Focus on Capital Corporation Transactions and Services

The Company's capital corporation is the financing arm of Cisco, which leases the Company's products. The accounting for the leases and tracking of the products under lease is still a very time consuming and mechanical process. In order to scale the capital corporation to the forecasted transaction levels the Company anticipates, it needs to make significant system improvements and hire additional employees to focus on accounting and operations.

The Company currently defers the revenue recognition for products shipped to thinly capitalized CLECs. As the Company obtains a greater history of these transactions, it will need to continue to evaluate its assessment of collectibility and related revenue recognition.

Management Response:

We agree with the comment. We already have plans that we are in the process of implementing to address the staffing and systems concerns. We have hired additional headcount in both accounting and operations. We have also budgeted significant increases in people over the next year. The E-LESE system for front-end originations is nearing completion and should be implemented by the end of November 2000. We have engaged an outside consulting firm as project manager to facilitate the documentation of our business requirements for an end to end solution, perform gap analyses and recommend the appropriate solution(s). Their work will be completed during the first quarter of fiscal 2001.

The reserves for the service provider loans will continue to be evaluated on a regular basis to ensure that they are at the appropriate level.
Executive Level Recommendations

Improve Revenue Recognition Procedures

The Company continues to account for its revenue appropriately under the software revenue recognition rules. We recommend that the Company improve the documentation to support the conclusions that the Company has vendor specific objective evidence ('VSOE') for undelivered elements of a customer order.

The Company is also entering into more contracts where implementation services are provided. The systems in place to evaluate service contracts, track and account for these projects are not robust enough to scale to the level the Company currently plans on attaining.

Management Response

The Company concurs with PwC that it is in compliance with the software revenue recognition rules. The Company has already established a formal documentation for VSOE on all contracts containing future products/upgrades. In addition, for contracts containing bundled product and service solutions, a formal Revenue Transfer is completed detailing the VSOE calculation and is approved by Corporate Revenue. The Company currently defers all of the revenue from a customer where VSOE cannot be supported.

The Company is in the process of implementing processes and systems which will support the business model. We expect that the first phase of this project will be completed in the third quarter of fiscal 2001.
Exhibit HH
Title: Revenue Testing Q1

Area: 6000 -Sales and Cost of Sales
File Section: Profit and loss
Industry Name: US General July 1998

Audit Objectives: Completeness, Accuracy, Existence/Occurrence, Valuation
Strategy Option: High

Description:
1) Obtain a copy of the Revtrac Database (non-standard contracts) for the period ended 10/30/99 from Darrel Brinkman, Revenue Recognition.

2) Select 5 contracts from the Revtrac Database.

3) Obtain contracts and supporting documentation for the 5 contracts selected for testing.

4) Inquire with Darrel Brinkman, Revenue Recognition, about how the deferral of revenue was determined and/or calculated.

5) Document the calculation or methodology used to establish the deferral of revenue or lack thereof, and ensure that it is consistent with the contract terms.

6) Agree the amount of the deferral (based on calculation or methodology) to the U.S. Corporate Deferred Revenue Summary or the U.S Corporate AR Reserve Summary (located in the black book).

7) Agree the U.S. Corporate Deferred Revenue Summary and the U.S Corporate AR Reserve Summary to the G/L.

8) Examine the contract to ensure that all potential exposures have been adequately reserved.

Comments:
1) Completed.
2) Completed.
3) Completed.
4) Completed.
5) Completed. See attached document for contracts selected for testing relating to Q1' 00:

Q1 Rev Rec
6) Completed within immaterial amounts.
7) Completed without exception.
8) Completed.

**Linked Strategy Factors:**
A - Sales transactions may be inaccurate

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</thead>
<tbody>
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<td>Jaime Wayland</td>
</tr>
<tr>
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<td>James W. Sullivan</td>
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<td></td>
<td>James W. Sullivan</td>
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**Review Categorization:**

**Maintenance**

| Created By:      | Jaime Wayland |
| Last Modified By:| Jaime Wayland |
| Editors:         | Jaime Wayland; James W. Sullivan |
HarvardNet (ID # 1850)

Cisco Systems entered into a Memorandum of Understanding (MOU) with HarvardNet, Inc. Per examination of the agreement:

a) HarvardNet agrees to purchase *Cisco 6130 Products* ("6130s"), *Cisco 6400 Products* ("6400s") and *Cisco 2 port DMT cards*.

b) Cisco commitments include:

1) When the 4 Port DMT/Flexcard becomes available for first commercial shipment (FCS), HarvardNet may exchange up to one thousand (1,000) of the 2 port DMT cards purchased as an Interim Solution with the 4 Port DMT/Flexcard. If the FCS for the DMT/Flexcard is delayed beyond the middle of the first quarter of calendar year 2000, Cisco will increase the number of 2 Port DMT cards that HarvardNet may exchange to 1,500. Any such exchanges shall be requested within six (6) months from FCS of the 4 Port Cards.

2) After FCS of the Cisco N12, Cisco agrees that HarvardNet may upgrade the Cisco Network Interface Card (N11) and system controller to the Cisco N12 and DS3 uplink and subtending at a net upgrade price of $2,550 per unit.

3) Cisco agrees that HarvardNet may trade in three (3) 6130s in the rack for three (3) 6160 Products ("6160s"). Such trade in option shall be available for six (6) months after FCS of the 6160.

4) HarvardNet may return BPX DS3 cards that are no longer needed, and Cisco will credit the purchase price towards future purchases.

PwC examined the Company’s calculation of the revenue deferral for shipments of the interim products through November 30, 1999, and noted that the Company appears to have calculated the revenue deferral in accordance with SOP 97-2 (fair value analysis of interim and final product). Please refer to the client’s methodology at w/p 6000-1. PwC also recalculated the revenue deferral amount based upon the terms noted above without exception. As it appears that the Company has properly recorded the deferred portion of revenue due to the multiple element agreement, PwC waives further examination.

American Express (ID #1678)

Cisco Systems entered into an agreement with American Express. PwC examined the American Express Review Form, noting that Cisco agrees to pay $560,000 for the return of Nortel Equipment previously installed at American Express. All this referenced equipment must be returned to Cisco Systems, Inc. by May 31, 2000 for American Express to qualify for this payment. PwC traced and agreed the obligation to pay the $560,000 to the U.S. Corporate AR Reserve Summary schedule without exception. PwC waives further examination.
Road Runner (ID # 1557)

Cisco Systems entered into a Software License Agreement with Road Runner/ServiceCo, LLC. PwC examined the Software License Agreement with Road Runner, and noted the following:

a) The Agreement is effective as of the effective date, and will continue until expiration on December 31, 2006.

b) Cisco grants to Road Runner, non-exclusive, non-transferable license to use, reproduce and install the object code version of the software identified in the Agreement (Exhibit A).

c) Licensee (Road Runner) agrees to pay the license fee set forth in the Agreement (Exhibit A) according to the payment terms specified in the Agreement (Exhibit B). All fees are nonrefundable.

d) contractual obligation totaling $7,000,000 relating to sale of software ($6 million) and engineering services ($1 million); and

e) payment of 50% is due on contract signing and 50% on December 15, 2002.

PwC also noted that Exhibit C of the agreement outlines the support services offered to the customer (including the applicable prices). During any renewal term, Customer will pay the then-current service fees.

PwC notes that the Darrell Brinkman, Revenue Recognition, prepared a Fair Value Allocation calculation which has allocated the revenue as follows:

\[
\begin{align*}
2,800,000 & \quad \text{FV of software revenue recognized related to Pmt 1} \\
700,000 & \quad \text{FV of Engineering Services as services are performed} \\
3,500,000 & \quad \text{FV of software recognized related to Pmt 2 upon cash receipt} \\
7,000,000 & \quad \text{Total}
\end{align*}
\]

PwC recalculated the Fair Value Allocation without exception, and noted that it appears to be calculated in accordance with SOP 97-2, paragraph 11.

PwC notes that this represents the amount of revenue deferred at Q1 '00.

Based on our review of the agreement and discussion with management, it appears that the Company has properly deferred the revenue related to Engineering Services.

It also appears that the Company properly recognized revenue (i.e., $2.8 million) upon delivery and acceptance of the software as:

a) there is persuasive evidence of an arrangement (i.e., Software License Agreement)

b) delivery and acceptance of the software has occurred

c) the price is fixed or determinable (i.e., see above)
Cisco Systems entered into an agreement with @Home to ship OC48 POS or OC3 POS cards as interim equipment until OC48 SRP cards become available. PwC examined the @Home Review Form, and noted that the OC48 SRP technology agreed upon in the contract would not be available until March/April 2000. Cisco shipped another product to serve as interim equipment, and recognized half of the revenue on this product.

Per Darrell Brinkman, Revenue Recognition, the customer was getting functionality from the product (generating revenue). Darrell Brinkman calculated the fair value of the interim product and the future product, noting that they had similar fair values. Therefore, the Client deferred half of the revenue. Please refer to Revenue Recognition memo for calculation of deferral. PwC recalculated the Fair Value Allocation between the interim and final product without exception, and noted that it appears to be calculated in accordance with SOP 97-2. PwC waives further examination.
Title: Revenue Testing Q2

Area: 6000 - Sales and Cost of Sales
File Section: Profit and loss
Industry Name: US General July 1998

Audit Objectives: Completeness, Accuracy, Existence/Occurrence, Valuation
Strategy Option: High

Description:
1) Obtain a copy of the Revtrac Database (non-standard contracts) for the period ended 01/29/00 from Darrel Brinkman, Revenue Recognition.

2) Select 15 contracts from the Revtrac Database.

3) Obtain contracts and supporting documentation for the 15 contracts selected for testing.

4) Inquire with Darrel Brinkman, Revenue Recognition, and Mimalini Ingram, Revenue Recognition, about how the deferral of revenue was determined and/or calculated.

5) Document the calculation or methodology used to establish the deferral of revenue or lack thereof, and ensure that it is consistent with the contract terms.

6) Agree the amount of the deferral (based on calculation or methodology) to the U.S. Corporate Deferred Revenue Summary or the U.S Corporate AR Reserve Summary (located in the black book).

7) Agree the U.S. Corporate Deferred Revenue Summary and the U.S Corporate AR Reserve Summary to the G/L.

8) Examine the contract to ensure that all potential exposures have been adequately reserved.

Comments:
1) Completed.
2) Completed.
3) Completed.
4) Completed.
5) Completed. The following contracts were selected for testing for Q2 '00:

KeyCorp
Per examination of the contract, KeyCorp is entitled to the following discounts on maintenance, if KeyCorp purchases $44.8M in product:

1. Year 1: 7% of List Price value of product purchases
   Year 2: 5% of List Price value of product purchases
   Year 3: 5% of List Price value of product purchases

The staffing credit will be applied to KeyCorp’s account for amounts due when the credit is earned (KeyCorp makes purchases).

Per Darrel Brinkman, KeyCorp purchases are tracked on an Excel spreadsheet by an employee in the BU (Business Unit). The above percentages are multiplied by the total purchases to calculate the deferral of revenue represented in the U.S. Corporate AR Reserve Summary.

2. During calendar year 1998, Cisco shall provide KeyCorp a credit equal to three percent (3%) of the value of Product purchases which will be applied to KeyCorp’s account for amounts owed to Cisco by KeyCorp for maintenance.

Per Darrel Brinkman, a 3% credit was applied against maintenance revenue.

Additionally, Cisco has placed two (2) on-site personnel at KeyCorp during the initial two years of the agreement. This revenue is recorded by Professional Services who defers all revenue up front. Revenue is recognized upon completion of contract terms (signed Milestone/service Completion Certificate between both parties) per Minalini Ingram, Revenue Recognition.

Merrill Lynch

PwC examined the Merrill Lynch contract, noting that at the beginning of each year of the term of the agreement, the Customer and Cisco will agree upon a basic discount, between 28 - 34%, which will be reflected on the purchase order and invoice for each purchase. Additionally, Cisco will grant the customer a quarterly credit which is determined by the previous quarters purchases. The quarterly credit will be between 0 - 4% per the contract.

Per Darrel Brinkman, Merrill Lynch had more than $32 M in purchases, and therefore, qualified for the 4% discount. Merrill Lynch purchases are tracked on an Excel spreadsheet by an employee in the BU (Business Unit). The 4% discount is multiplied by total purchases, on a quarterly basis, to calculate the deferral of revenue represented in the U.S. Corporate AR Reserve Summary. PwC notes that in Q2 FY '00, the Client developed a Web based, automated system to track purchases for purposes of rebates and discounts; therefore PwC waives proposing a recommendation to track the purchases and rebate deferrals on an automated system.

Cincinnati Bell

PwC examined the CBT contract, noting the following:

1. CBT is granted a credit of $112.50/residential ADSL order for the 1st 90 days of the introduction of ADSL services.

   Per Darrel Brinkman, a credit memo was issued for $1,689,300 on 4/22/99 relating to the credit stated in the contract. Therefore, a reserve is no longer necessary as the term extended for only 90 days.

2. Cisco will grant a credit for 2% of calendar year 1998 and 1999 Cisco equipment.
purchases made by CBT.

Per Darrel Brinkman, CBT purchases are tracked on an Excel spreadsheet by an employee in the BU (Business Unit). The 2% discount is multiplied by the 1998 and 1999 purchases to calculate the deferral of revenue represented in the U.S. Corporate AR Reserve Summary.

Rutgers University

PwC examined the Rutgers University MOU, noting that for any direct purchases that Rutgers may place with Cisco, Cisco will extend to Rutgers an Incentive Discount Rebate at 4% of the List Price.

Per Darrel Brinkman, the rebate (deferral of revenue) is tracked by Rebate Tool which a WebBased automated system developed in FY ’00 and is used to track rebates going forward. The account which records rebates from the Rebate Tool is “Global Rebate Reserve” (#11506). Customers are entered into Rebate Tool along with all the terms of the contract. Queries are run monthly to determine the amount of purchases made by Rutgers. This amount is then entered into Rebate Tool. Rebate Tool automatically calculates the appropriate revenue deferral based on the information. Per Darrel Brinkman, Rebate Tool has been tested by Internal Audit and no errors were detected.

Chase Manhattan Bank Rebates

PwC examined the Chase Manhattan Bank contract, noting the following rebates/discounts:

1. On a quarterly basis, a credit will be granted to Chase for purchases made through Cisco’s international channel partner. The credit is calculated as follows:
   - International price
   - U.S. direct price
   - 5% of the list price
   - credit issued to Chase

   Cisco will provide Chase with a listing of the sales order eligible for the credit. If Chase believes that other orders are eligible, Chase will notify Cisco of additional orders eligible for credit, and Cisco may add them to the list. The credit is applied to an invoice for product during the subsequent quarter following the quarter within which the credit was earned. Therefore, the deferral in the U.S Corporate A/R Reserve Summary represents the amount earned in Q2 which will be applied in Q3.

2. Cisco is required to provide a credit of $426,000 to be used for product purchases or services on or before March 31, 2000. This amount is included in the U.S. Corporate A/R Reserve Summary.

Qwest Communications

Per Darrel Brinkman, Revenue Recognition, Qwest ordered parts of which 15% of the purchase order included parts which had not yet been manufactured by Cisco. Cisco determined that the 15% represented parts that would never be manufactured due to newly manufactured products, comprising of the same functionality. Cisco provided Qwest with two options, both fair values (sales price less discount) are approximately the same. Both of the options provide the functionality that Qwest is looking for; therefore, Cisco believes that there is minimal risk associated with the customer returning the product. Darrell Brinkman deferred 100% of the revenue represented by the fair value of the

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option given to the customer, since the product has not been shipped to the customer. Please refer to
the Revenue Recognition memo for the Client's calculation of fair value.

Bell Atlantic

PwC examined the Bell Atlantic contract, noting that Bell Atlantic does not take ownership of the
product until it is received and accepted.

Per Darrel Brinkman, seven different sites have these acceptance terms. Cisco believed that
there was exposure with this customer as the acceptance terms were not signed upon
acceptance. Therefore, Cisco originally booked a $300,000 deferral of revenue which is consistent with
the terms of the contract. As all seven acceptance contracts were signed by Bell Atlantic, Cisco
released the deferral of revenue. Therefore, it appears appropriate that no deferral of revenue exists
with this customer.

CapRock Communications

Per Darrel Brinkman, this deal represents a transfer of revenue to professional services as part
of the contract price represented installment and network design. Darrel Brinkman allocates
revenue to professional services based upon allocation of fair value of the product and services provided.
The Product department and the Professional Services department work together to
allocate the revenue appropriately. Therefore, checks and balances exist in the allocation of
revenue to the different lines of business (i.e., product, professional services, support). The transfer of
revenue form is examined and approved by Mark Firehammer, A/R, and Tom Cupples. Further, this form
provides specific instructions (i.e., journal entry transferring product revenue to professional services
revenue) to reduce the potential for double booking revenue.

PwC notes that a product reserve for this contract is not necessary as revenue is recognized
upon shipment. Professional Services who defers all revenue up front, recognizes revenue upon
achievement of milestones (signed Milestone/service Completion Certificate between both parties) per
Darrel Brinkman.

ICG/Netcom

Per inquiry with Darrell Brinkman, Revenue Recognition, and examination of the Revtrac profile,
ICG/Netcom was a one-time deal, not an on-going revenue recognition issue. ICG was entitled to a
software upgrade (MGX-8850) when the product became available; the MGX8220 was shipped to the
customer as an interim product. Cisco deferred the entire revenue amount for the interim product
($563,458), knowing that the customer had the option to keep the MGX8220 and not receive a credit (at
which time revenue would be recognized), or trade-in the MGX8220 for full credit to buy the MGX8850
when available. PwC notes that the client's explanation appears reasonably conservative.

American Bankers

Per Darrel Brinkman, this deal represents a transfer of revenue to professional services as part
of the contract price represented installment and network design. Darrel Brinkman, allocates
revenue to professional services based upon fair value of the product and services provided. The
Product revenue department and the Professional Services department work together to allocate the
revenue appropriately. Therefore, checks and balances exist in the allocation of revenue to the different
lines of business (i.e., product, professional services, support). The transfer of revenue is examined and

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approved by Mark Firehammer, A/R, and Tom Cupples.

PwC notes that a product reserve for this contract is not necessary as revenue is recognized upon shipment. Professional Services who defers all revenue up front, recognizes revenue upon achievement of milestones (signed milestone agreement between both parties) per Darrel Brinkman.

Ford Motor Co.

Per Darrel Brinkman, this deal represents a transfer of revenue to professional services as part of the contract price represented by installment and network design. Darrel Brinkman, allocates revenue to professional services based upon fair value of the product and services provided. The Professional Services department and the Product revenue department work together to allocate the revenue appropriately. Therefore, checks and balances exist in the allocation of revenue to the different lines of business (i.e., product, professional services, support). The transfer of revenue is examined and approved by Mark Firehammer, A/R, and Tom Cupples.

PwC notes that a product reserve for this contract is not necessary as revenue is recognized upon shipment. Professional Services who defers all revenue up front, recognizes revenue upon achievement of milestones (signed milestone agreement between both parties) per Darrel Brinkman.

Walmart

Per Darrel Brinkman, this deal represents a transfer of revenue to professional services as part of the contract price represented by installment and network design. Darrel Brinkman, allocates revenue to professional services based upon fair value of the product and services provided. The Professional Services department and the Product revenue department work together to allocate the revenue appropriately. Therefore, checks and balances exist in the allocation of revenue to the different lines of business (i.e., product, professional services, support). The transfer of revenue is examined and approved by Mark Firehammer, A/R, and Tom Cupples.

PwC notes that a product reserve for this contract is not necessary as revenue is recognized upon shipment. Professional Services who defers all revenue up front, recognizes revenue upon achievement of milestones (signed milestone agreement between both parties) per Darrel Brinkman.

Chicago Board of Trade

Per Darrel Brinkman, this contract represents a Network Utility Model transaction which essentially means that Chicago Board of Trade is renting a network from Cisco. Cisco has only encountered 3 other deals of this nature; since it is an unusual transaction for Cisco, it is tracked in Revtrac.

Per Darrel Brinkman, Cisco bills the customer monthly based on number of ports used by the customer for the month. As such, deferral of revenue is not necessary.

KPMG

PwC examined the contract, noting that KPMG is entitled to $25,000 worth of training for every $1,000,000 spent, which covers training for 10 people for a typical 5 day training course.

As KPMG has spent $1,000,000 per Revtrac Reporting, a reserve for $25,000 is necessary.
However, Cisco generally does not include deferrals under $100,000 on the U.S. Corporate Deferred Revenue Summary or the U.S. Corporate AR Reserve Summary due to immateriality. These deferrals are covered under the general reserve at w/p 3200-4. PwC notes that the explanation appears reasonable and waives further review.

Federal Buy America

Cisco’s Sales Finance and Legal Departments noted per terms of the contract that all products must be originated from the U.S. Cisco discovered that it had inadvertently sold directly to the Federal Government a small quantity of low end hubs and repeaters that did not comply with either the Buy American Act (BAA) or Trade Agreements Act (TAA). The BAA and TAA are two laws that apply to Federal procurements that establish certain restrictions and prohibitions on the sale of end products manufactured in certain countries.

Cisco identified the orders which violated the contract terms by examining each line item on the sales order, noting that the contingent liability is approximately $50,000. Per a memo from Joe Gagen, Legal, additional exposure may exist for civil false claims. The maximum exposure would be $150,000 which is the amount reserved. PwC notes that this reserve appears reasonable based on the work performed by the client on identifying the minimum and maximum exposure.

6) Completed within immaterial amounts.

7) Completed without exception.

8) Completed. PwC notes that several contracts grant discounts to customers which are reflected on the P.O. and invoice for each purchase. Therefore, a deferral of revenue is not necessary.

**Linked Strategy Factors:**

A - Sales transactions may be inaccurate

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**Maintenance**

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Client Name: Cisco Systems, Inc.
Period End: 07/29/2000

Title: Revenue Testing Q3
Area: 6000 -Sales and Cost of Sales
File Section: Profit and loss
Industry Name: US General September 1998

Audit Objectives: Completeness, Accuracy, Existence/Occurrence, Valuation
Strategy Option: High

Description:
Part 1 - Revtrac

1) Obtain a copy of the Revtrac Database (non-standard contracts) for the period ended 04/29/00 from Pauline Kaye, Revenue Recognition.

2) Select 10 contracts from the Revtrac Database.

3) Obtain contracts and supporting documentation for the 10 contracts selected for testing.

4) Inquire with Pauline Kaye, Revenue Recognition, and Mirmalini Ingram, Revenue Recognition, about how the deferral of revenue was determined and/or calculated.

5) Document the calculation or methodology used to establish the deferral of revenue or lack thereof, and ensure that it is consistent with the contract terms. Additionally, SOP 97-2 specifies that four criteria must be met prior to revenue recognition for a single-element arrangement or for amounts allocated to individual elements in a multiple-element arrangement. The four criteria are as follows:

1. Persuasive evidence of an arrangement exists.
2. Related fees are fixed or determinable.
3. Collection of such fees is probable.
4. The element has been delivered.

Verify that all four (4) criteria has been met and that recognition of revenue appears reasonable.

6) Agree the amount of the deferral (based on calculation or methodology) to the U.S. Corporate Deferred Revenue Summary or the U.S Corporate AR Reserve Summary (located in the black book).

7) Agree the U.S. Corporate Deferred Revenue Summary and the U.S Corporate AR Reserve Summary to the G/L.

8) Examine the contract to ensure that all potential exposures have been adequately reserved.

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Part 2 - Oracle

1) Obtain the sales report (generated from Oracle) for the month of April 00 from Darrel Brinkman.

2) Select 10 items from the sales report.

3) Obtain the supporting documentation (ie., purchase order, invoice, shipping docs, contracts).

4) If the purchase order and invoice have standard terms, determine whether the client has properly recorded revenue on the day of shipment per inquiry with Munirani Ingram, Revenue Recognition.

5) If the purchase order and invoice have non-standard terms, determine whether the Client's recognition of revenue is appropriate.

Comments:
Part 1 - Revtrac

1) Completed.

2) Completed.

3) Completed.

4) Completed.

5) IBM Rebate

PwC examined the IBM contract, noting that Cisco agrees to pay IBM, on a calendar-year basis, an amount equal to six percent (6%) of the list price of the Cisco products purchased by IBM in the preceding calendar year, which will not include any payments for warranty and support services. Cisco will make payments on February 15 of the years 2001, 2002, 2003, 2004 and 2005.

Per Michelle Leung, the six percent (6%) discount is multiplied by total product purchases (list price as specified by the contract) to calculate the deferral of revenue represented in the IBM Rebate Reserve (Acct. 11507). PwC recalculated the reserve balance per the Revtrac profiles (which tracks product revenue) within immaterial amounts and notes that the reserve balance appears reasonable.

Per the contract, PwC also noted a return clause stating that Cisco agrees to pay 50% of products returned by IBM customers if a Cisco product replaces the returned product. The payments under this provision will be due on each of March 15, 2000, 2001 and 2002. IBM will notify Cisco of the amount due no later than the preceding January 31. Please refer to the doc link provided below (IBM Critical Matter) for work performed on the reserve established by Cisco relating to the returns.

PwC concludes that the the Client's proposed method of recognizing revenue (net of the 6% reserve) against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;

b) financial elements exist in the contract (ie, invoice prices are based list price net of
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normal and volume discounts);
c)
   it is probable that IBM will pay being that it is a large, established company; and
d)
   product revenue is the only element of this contract and will be recognized upon
shipment, net of the 6% reserve which will be established in connection with invoicing.

Per review of the contract, PwC noted no evidence of other obligations (i.e., service,
maintenance, etc.) for which Cisco is liable.

Please also refer to Critical Matter regarding the IBM agreement at the doc link □.

IBM

Per Pauline Kay, Revenue Recognition, this selection is represent by the IBM Rebate contract.
Cisco segregates and tracks the IBM contracts by type of customer (i.e., enterprise, service
provider, and small - medium business) for internal purposes. IBM purchases product for internal use and
as a service provider, explaining why Revtrac has two profiles for IBM. Please refer to the above
explanation for contract terms.

AT&T / General Motors

PwC examined the AT&T contract, noting that Cisco will provide professional services and
maintenance support to the customer in addition to the sale of product. As of Q3, Cisco has billed the
customer only for staging the product (preparation and integration of the network related to testing the
product) and has reserved 100% of the amount. Per Mrinalini Ingram, Cisco is deferring 100% of the
revenue because AT&T has not agreed to accept the product. Cisco sent the product to a 3rd
party shipper and will not recognize revenue until a final resolution is established and documented.

PwC concludes that the the Client's proposed method of recognizing revenue against this
contract appears to be in accordance with SOP 97-2 due to the following:

   a) an agreement exists;
   b) financial elements exist in the contract (i.e., a flat dollar amount fee or a set percentage of
      Product list);
   c) it is probable that AT&T will pay (if they decide to accept the product) being that it is a
      large, established company; and
   d) product revenue will be recognized upon shipment, professional services revenue will be
      recognized upon achievement of milestones (signed Milestone/service Completion Certificate
      between both parties) and maintenance revenue is recognized on a straight line basis over the term of
      the maintenance agreement established in the contract.

Rhythms NetConnections

PwC examined the Rhythms NetConnections agreement, noting that this is a
telecommunications service provider license agreement. Revenue is generated based on a Right to
Use (RTU) software license and product sales. The RTU software license contract term is for three years.
Cisco agreed to provide the first year free of charge, the second year will be billed at the beginning of
the year for $500k, and the third year will be billed $1M ($250k per quarter). Per Mrinalini Ingram,
Revenue Recognition, no revenue will be recognized in the first year to be conservative, in the second
year $500k will be recognized on a straight-line basis over the year, and in the third year $1M will be
recognized on a straight line basis over the year. PwC notes that the Client's method of recognizing

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RTU revenue appears reasonably conservative.

PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., price list less applicable discounts specified in the agreement);
c) it is probable that Rhythms NetConnections will pay being that it is a large, established company; and

d) product revenue will be recognized upon shipment and the RTU software license revenue will be recognized on a straight-line basis over each individual year specified by the contract.

**GTE Internetworking**

PwC examined a "Future/Upgrades" checklist, specifying that an agreement is in-process and product is estimated to be delivered in September 2000. The customer will receive an initial product which is followed by an upgraded product. Please refer to the Revenue Recognition memo for the Client's methodology for determining the fair value of each product and recognition of revenue. PwC examined the fair value calculation, noting that it appears consistent with their methodology and in accordance with SOP 97-2.

As no product has been shipped as of Q3, and no revenue has been recorded, PwC notes that it appears reasonable that a reserve has not been established for this agreement.

**Excite@Home**

PwC examined the Sales Agreement Summary and Revtrac Profile, noting that Excite@Home is entitled to a free product upgrade from the OC48E cards to the OC48-DPT cards. Therefore, Cisco has deferred revenue amounting to the fair market value of the upgrade product. Please refer to the Revenue Recognition memo for the Client's methodology for determining the fair value of each product and recognition of revenue. PwC notes that the client's methodology is in accordance with SOP 97-2.

**Vectris Communications**

PwC examined the Vectris Communications agreement, noting that the customer has purchased product and is entitled to professional services and maintenance service. Per Darrel Brinkman, this deal represents a transfer of revenue to professional services and maintenance. Darrel Brinkman allocates revenue to professional services and maintenance support based upon the fair value of the product and services provided. The Product revenue department, the Professional Services department and the Maintenance department work together to allocate the revenue appropriately. Therefore, checks and balances exist in the allocation of revenue to the different lines of business (i.e., product, professional services, maintenance support).

Additionally, PwC noted that the customer is entitled to future upgrades. Therefore, Cisco has deferred revenue amounting to the fair market value of the upgrade product. Please refer to the Revenue Recognition memo for the Client's methodology for determining the fair value of each product and recognition of revenue. PwC notes that the client's methodology is in accordance with SOP 97-2.
Per the Revtrac profile, Cisco has reserved $114,000 for late delivery of the product which is the maximum exposure relating to this incident.

PwC concludes that the the Client’s proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;

b) financial elements exist in the contract (ie, Price list less applicable discounts specified in the agreement);

c) it is probable that Vectris Communications will pay being that it is a large, established company; and

d) the FMV of the upgraded product will be deferred until it is delivered, while the FMV of the initial product will be recognized upon shipment, professional services revenue will be recognized upon achievement of milestones (signed Milestone/service Completion Certificate between both parties), and maintenance revenue will be recognized on a straight-line basis over the term of the contract.

Lockheed Martin

PwC examined the Lockheed Martin agreement, noting that the customer has purchased product and is entitled to professional services.

Per review of Revtrac profile, Cisco erroneously invoiced Lockheed Martin instead of Cisco Capital. Therefore, a reserve has been established against this invoice ($473,000).

PwC concludes that the the Client’s proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;

b) financial elements exist in the contract (ie, Price list less applicable discounts specified in the agreement);

c) it is probable that Lockheed Martin will pay being that it is a large, established company; and

D) product revenue will be recognized upon shipment and professional services revenue will be recognized upon achievement of milestones (signed Milestone/service Completion Certificate between both parties). PwC notes that a specific dollar value for professional services has been established in the contract, separate from product revenue.

Bank of America (Nations Bank)

PwC examined the Revtrac profile, noting that this deal represents professional and maintenance services provided to B of A.

Per Pauline Kaye, this deal represents a transfer of revenue to professional services as part of the contract price representing installment and network design. Darrel Brinkman allocates revenue to professional services based upon the fair value of the product and services provided. The Product revenue department and the Professional Services department work together to allocate the revenue appropriately. Therefore, checks and balances exist in the allocation of revenue to the different lines of business (ie., product, professional services, support). The transfer of revenue is examined and approved by Tom Cupples, Revenue.

PwC notes that a product reserve for this contract is not necessary as revenue is recognized.
upon shipment. Professional Services who defers all revenue up front, recognizes revenue upon achievement of milestones (signed milestone agreement between both parties) per Darrell Brinkman.

Goldman Sachs

PwC examined the agreement and Revtrac profile, noting that the customer will purchase product and will be entitled to professional services.

PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., price list less applicable discounts specified in the agreement);
c) it is probable that Goldman Sachs will pay, being that it is a large, established company; and

d) product revenue will be recognized upon shipment and professional services revenue will be recognized upon achievement of milestones (signed Milestone/service Completion Certificate between both parties).

Per the Revtrac profile, Cisco was late on performing a service to Golman Sachs. As such, additional bandwidth was needed by the customer and Cisco agreed to fund the bandwidth costs. A reserve of $400,000 has been established, representing a majority of the costs. Other potential costs are immaterial, and therefore, not reserved.

6) Completed within immaterial amounts.

7) Completed without exception.

8) Completed. PwC notes that several contracts grant discounts to customers which are reflected on the P.O. and invoice for each purchase. Therefore, a deferral of revenue is not necessary.

Part 2 - Oracle

1) Completed

2) Completed

3) Completed

4) Completed.

5) Sprint (Inv.# 4103985)

Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase. Per review of the agreement and revenue testing performed in Q1, Sprint is entitled to "known-how" credits and the reserve appears to be adequate. Please refer to audit step, "Revenue Testing Q1" for documentation on the Sprint contract and recognition of revenue.

US West Communications (Inv.# 4083015)

PWC 018325
Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase, and the product revenue is recognized upon shipment per Mrinalini Ingram.

Per review of the contract, US West is entitled to maintainence service and VSOE has been established as the agreement states that the maintenance fees (there are two maintance fees per the contract) "shall be three and three quarter percent (3.75%) and four and one-half percent (4.5%), respectively. Each shall be payable in semi-annual installments equal to 1.875% and 2.25% respectively, of Integrator's cumulative net purchases. Per Mrinalini Ingram, Revenue Recognition, maintenance revenue is deferred in total and recognized on a straight-line basis over the term of the contract.

PwC concludes that the the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (ie, Price list less applicable discounts specified in the agreement);
c) it is probable that US West will pay being that it is a large, established company; and
d) product revenue will be recognized upon shipment and maintenance revenue will be recognized over the life of the contract.

As such, further review is waived.

Promon Electronica (Inv.# 4099796)

Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase, and the product revenue is recognized upon shipment per Mrinalini Ingram.

Per review of the contract, Promon Electronica is entitled to a maintenance service which is a separate contract with established prices (VSOE) for maintenance.

- A recurring annual fee of 5.5%, charged on Integrator's cumulative net purchases, is billed quarterly.
- Several one-time fees are charged at 12%, 9%, 2% and 2.5% of net purchases.

Per Mrinalini Ingram, Revenue Recognition, maintenance revenue and service fees are deferred in total and recognized on a straight-line basis over the term of the contract.

PwC concludes that the the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (ie, Price list less applicable discounts specified in the agreement);
c) it is probable that Promon Electronica will pay being that it is a large, established company; and
d) product revenue will be recognized upon shipment and maintenance revenue will be recognized over the life of the contract.

As such, further review is waived.
Pac Bell Network Integration (Inv.# 4108143)

Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase, and product revenue is recognized upon shipment per Mrinalini Ingram.

PwC notes that the only agreement with PaC Bell terminated in FY '97. Subsequent to the termination of the agreement, PaC Bell places product orders via purchase orders. As such, it appears that this customer is not entitled to non-standard terms and revenue recognition upon shipment appears reasonable. Further review is waived.

Kent Electronics (Inv.#4101727)

Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase, and product revenue is recognized upon shipment per Mrinalini Ingram.

PwC notes that the agreement with Kent Electronics terminated prior to the invoice date. Subsequent to the termination of the agreement, Kent Electronics places product orders via purchases orders. As such, it appears that this customer is not entitled to non-standard terms and revenue recognition upon shipment appears reasonable. Further review is waived.

Cable & Wireless (Inv. #4199232)

Per examination of the invoice, this item appears to be a standard purchase, and revenue is recognized upon shipment per Mrinalini Ingram.

Per review of the contract, PwC notes that there is a separate contract for annual maintenance with established prices (6.0% of product list price) for maintenance. Maintenance revenue is deferred in total and recognized on a straight-line basis over the term of the contract.

Additionally, PwC notes that Cable & Wireless is entitled to the following standard terms which are consistent among different customers:

- the terms of this contract apply to upgrades which must be purchased by the customer;
- standard and volume discounts which are applied to the invoice, and therefore, a reserve is not applicable;
- standard hardware, software and support options; and
- CCO (Cisco Connection Online) Access.

PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);
c) it is probable that Cable & Wireless will pay being that it is a large, established company;
and
d) product revenue will be recognized upon shipment and maintenance revenue will be recognized over the life of the contract.

As such, further review is waived.
Relational Funding Corp (Inv.#4174388)

Per examination of the purchase order and invoice, this item appears to be a standard equipment purchase, and product revenue is recognized upon shipment per Mrinalini Ingram.

PwC examined the agreement with Relational Funding Corp, and noted no non-standard terms and conditions. PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

- an agreement exists;
- financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);
- it is probable that Relational Funding Corp will pay being that it is a large, established company; and
- product revenue will be recognized upon shipment.

As such, further review is waived.

Comstor, Ingram Micro and Tech Data (Inv.#'s 4184080, 4173867 and 4184496, respectively)

Per examination of the customer profile, these customers are distributors. Oracle runs a query which groups all sales to distributors together, and reserves are separately established for them. For work performed on the distributor reserves, please refer to w/p 3200-5.

Linked Strategy Factors:

Completed By: Jaime Wayland
Reviewed By: James W. Sullivan
Review Categorization:

Maintenance

Created By: Jaime Wayland
Last Modified By: Scott Pinkerton
Editors: Jaime Wayland; James W. Sullivan; Scott Pinkerton

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Client Name: Cisco Systems, Inc.
Period End: 07/29/2000

Title: Revenue Testing Q4
Area: 6000 -Sales and Cost of Sales
File Section: Profit and loss
Industry Name: US General July 1998

Audit Objectives: Completeness, Accuracy, Existence/Occurrence, Cutoff, Valuation
Strategy Option: None, Some, High

Description:

1) Obtain a copy of the Revtrac Database (non-standard contracts) for the period ended 04/29/00 from Pauline Kaye, Revenue Recognition.

2) Select 5 contracts from the Revtrac Database.

3) Obtain contracts and supporting documentation for the 5 contracts selected for testing.

4) Inquire with Pauline Kaye, Revenue Recognition, and Mirmalini Ingram, Revenue Recognition, about how the deferral of revenue was determined and/or calculated.

5) Document the calculation or methodology used to establish the deferral of revenue or lack thereof, and ensure that it is consistent with the contract terms.

   Additionally, SOP 97-2 specifies that four criteria must be met prior to revenue recognition for a single-element arrangement or for amounts allocated to individual elements in a multiple-element arrangement. The four criteria are as follows:

   1. Persuasive evidence of an arrangement exists.
   2. Related fees are fixed or determinable.
   3. Collection of such fees is probable.
   4. The element has been delivered.

   Verify that all four (4) criteria has been met and that recognition of revenue appears reasonable.

6) Agree the amount of the deferral (based on calculation or methodology) to the U.S. Corporate Deferred Revenue Summary or the U.S Corporate AR Reserve Summary (located in the black book).

7) Agree the U.S. Corporate Deferred Revenue Summary and the U.S Corporate AR Reserve Summary to the G/L.

8) Examine the contract to ensure that all potential exposures have been adequately reserved.
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Comments:
1) Completed.
2) Completed.
3) Completed.
4) Completed.
5) Lockheed Monolake

Cisco entered into an agreement with Lockheed Monolake to purchase approximately $16.1M, net price, of Cisco product. All product to be purchased is currently available per Michelle Lueng, Revenue Recognition. Purchases through the end of Q2 totaled $6.7M at approximately 36% off list. Due to budgetary reasons, the customer will pay assuming a 0% discount off list. Later, when the customer purchases its final $1.7M of product, it will do so at a 93% discount from list so the total purchase price of $16.1M is achieved. The shifting of discounts results in an overall discount of 53.77% off list. Allocating this revised overall discount off list results in a deferral of $1.9M related to the existing $6.7M in revenue. When the current shipments with list of $7.7M actually occur, this will result in an additional deferral of $4.2M. PwC recalculated the deferral amounts and notes that they appear reasonable.

PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);
c) it is probable that Lockheed Monolake will pay being that it is a large, established company; and
d) product revenue will be recognized upon shipment along with the deferral noted above.

AT&T / Home Depot

PwC examined the Letter of Intent which provides support for the following discussion of the contract. In August 1999, Cisco entered into a transaction with AT&T to deploy 1,000 3810 kits at approximately 900 sites (Home Depot stores nationwide). Cisco entered into a subcontract agreement with Datatec to perform certain services on Cisco's behalf, including staging services. These staging services including configuration, checking for DOA, packaging with cables needed for the installation, and packaging with an outboard modem. The 1,000 kits represent approximately 9 months worth of deployments and were to be completed by June 30,2000. The price of the 1,000 kits was $6.1M, which represented $5.5M of Cisco gear and $600k of third party product purchased by Datatec on Cisco's behalf. AT&T wanted to complete this purchase with calendar 1999 budget, so it purchased and paid for all 1,000 kits even though they were going to be deployed over the next 6 months. The staging services take place at Datatec's facility and the product remains there until delivery and installation are ready. The terms of the sale with AT&T were that title transferred upon shipment from Cisco to Datatec, but that risk of loss remained with Cisco until product was shipped from Datatec to the respective Home Depot site. Because Datatec was acting as a subcontractor to Cisco, delivery of the product had not taken place until the product left Datatec resulting in a transfer of risk of loss. Accordingly, all revenue was deferred upon initial shipment from Cisco to Datatec. Monthly, Cisco receives reports from Datatec denoting the amount of product shipping through to Home Depots and the amount of product still remaining at Datatec. Based on these reports,
Cisco reduces its revenue deferral to match the amount of product still on hand at Datatec. The remaining product at Datatec should be shipped out by the end of Q1 FY '01.

PwC concludes that the the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;

b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);

c) it is probable that AT&T will pay being that it is a large, established company; and

d) product revenue will be recognized upon shipment to end user (Home Depot).

Cogent

Cisco examined the Cogent agreement, noting that Cisco may provide professional services and maintenance support to the customer in addition to the sale of product. PwC notes that the professional services and maintenance service is a separate contract with established prices (VSOE) as the contract states the following:

- for calls to TAC not covered under warranty, Service Provider shall be charged a fee of two hundred ($200) per hour;
- for repair and return not covered under warranty, Service Provider shall pay fifty percent (50%) of the purchase price of a new part plus any other applicable fees;
- Service Provider may request on-site field support for a fee of eight hundred ($800) dollars per day per technician plus reasonable, out of pocket travel and living expenses;
- Service Provider may purchase training classes that range from one to two days for a fee of one thousand ($1,000) dollars per day;
- classes shall be offered at Cisco's Petaluma site or on-site subject to a ten percent (10%) fee and travel expenses;
- classes are provided for groups of four to ten. Additional individuals may attend for a fee of two hundred and fifty dollars ($250) per person per day;
- Service Provider may purchase turn-up and testing services for a fee of eight hundred ($800) per day plus reasonable out of pocket travel expenses and a ten (10%) percent administrative fee;
- Service Provider may request field engineers to supervise its own installation crews for a fee of eight hundred ($800) per day plus reasonable out of pocket travel expenses;
- for turn-key installations, Service Provider may request a firm fixed price proposal.

PwC notes the following terms and conditions for software upgrades:

- the nominal charge for an upgrade of the core software load is one hundred ($100) dollars per network element;
- when Service Provider purchases a software upgrade, TAC (Technical Assistance Center) support is available at no charge (this service is standard among different contracts);
- optional feature packages may be introduced that provide for additional features. Service provider may elect to purchase and deploy these optional features at its discretion. Optional feature packages will be priced individually on a per Cerent 454 network element basis;
- for an upgrade of a Cerent 454 terminal that is not within one release of the current Cerent 454 core software load, Service Provider shall pay for the cost of all upgrades subsequent to the release which is currently on such terminal ($100 per level); and
- Service Provider may order software upgrade service to assist in keeping its network current with system software. Upon acceptance of such order, Cisco will upgrade Service
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Provider's network with the current Cerent 454 system software during a mutually agreed to schedule. The fee for this service is one hundred ($100) dollars per Cerent 454 network element, plus reasonable out of pocket expenses.

Based on the above terms and conditions, PwC notes that Cogent would have to purchase an upgrade at a specific price. Therefore, a free upgrade is not granted to Cogent and deferral of software sales is not necessary.

Additionally, PwC notes that Cogent is entitled to the following standard terms which are consistent among different customers:

- the terms of this contract apply to upgrades which must be purchased by the customer;
- standard and volume discounts which are applied to the invoice, and therefore, a reserve is not applicable;
- standard hardware, software and support options;
- CCO (Cisco Connection Online) Access; and
- a 45% discount for a maximum of twenty five (25) units of demo/eval equipment. Per Mrinalini Ingram, Cisco does not recognize revenue on demo/eval equipment; as such, a reserve is not necessary.

PwC concludes that the Client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);
c) it is probable that Cogent will pay being that it is a large, established company; and

d) product revenue will be recognized upon shipment, professional services revenue will be recognized upon achievement of milestones (signed Milestone/service Completion Certificate between both parties), and maintenance revenue will be recognized on a straight-line basis over the term of the contract.

Per Mrinalini Ingram and review of Amendment #1 of the Cogent Agreement, Cisco agreed to sell a nationwide OC-192 10x10 uni-directional network over 5 years. The total estimated revenue for the 10 channels is $109.9M. The initial channel is $47.8M for which orders have already been received. The entire transaction is being financed through Cisco Capital (Cogent obtained a loan from Cisco Capital Corp). As a part of the amendment, Cisco agreed to pay for a strand of dark fiber which Cogent is leasing for 20 years from Williams Communications. Cisco agreed to do this as a concession since it was unable to close on its original proposal of a bi-directional network. The total cost of the fiber which Cisco has agreed to reimburse Cogent for is $22.3M, payable in 4 installments. The $22.3M is a sales concession and is not being reimbursed via debt repayments to Cisco Capital. The first installment is for $8.9M and was paid on 7/7/00. This first installment was reserved for in June 2000, upon completion of the amendment and is being treated as a sales concession in advance. The remaining three payments will be reserved for when they are due, and taken as sales concessions when reserved. The amounts will not be reserved for prior to being due as Cisco is only obligated to make such payments if Cogent continues to make minimum additional quarterly purchases. If Cogent were to not keep up with its minimum purchase requirements, Cisco could cease to pay the next installment. The payments are not being capitalized and amortized against revenue ratably since there is no real asset to capitalize and any repayment or refundability would be remote. The next payment is for $7.9M and is due on 12/15/00. It will be reserved for in December.
Frontier Communications International Inc.

Cisco examined the Frontier Communication agreement, noting that Cisco may provide professional services support to the customer in addition to the sale of product. PwC notes that the professional services support has a definite price set forth in the agreement.

PwC noted the following terms and conditions of the contract:

- 80% of the invoice price must be due upon receipt of invoice and the remaining 20% due upon customer acceptance. Due to the customer acceptance clause, Cisco recognizes revenue upon cash receipt (customer acceptance term is 14 days). Therefore, prior to the cash receipt, revenue is deferred. The deferral is located on the "U.S. Corporate Deferred Revenue Summary" for $44M (Photonics Acquisition). Cisco closely tracks the purchases and cash receipts on this account, due to the volume of purchases made by Frontier, in order to recognize revenue on a timely manner per Michelle Lueng, Revenue Recognition.
- A 1% discount shall be granted by Cisco for all payments within 10 days of the invoice date. Per Tom Cupples, Revenue, history has shown that they do not pay within 10 days. Therefore, a reserve has not been deemed necessary.
- Cisco agrees to a 0.5% a week credit for the total purchase order value, up to a maximum of 5% of the purchase order, should Cisco not deliver the total order set forth in the purchase order on the committed dates. Per Tom Cupples, Revenue, he is not aware of anything owed to Frontier. As such a reserve is not necessary.
- Cisco shall provide training, training materials, and support to Frontier. Frontier is entitled to 50 person days of training per quarter for the initial twelve (12) months of the Agreement, reduced to 25 person days of training per quarter for the remainder of the Agreement. Per Michelle Lueng, Revenue Recognition, this training clause is standard and typical among all agreements. Any training obtained above the general terms will have a set price taken from the standard price list.
- Cisco agrees to work with Frontier to support joint marketing and sales activities. Cisco will establish and fund an account quarterly with one percent (1%) of the previous quarter's payments received from Frontier. Per Michelle Lueng, Revenue Recognition, a marketing accrual has been set up for this reserve.
- Cisco agrees, upon Customer's written request, to furnish Frontier with one lab system at no cost to Frontier. Per Tom Cupples, Revenue, a written request has never been received by Frontier and one and three-fourths of a year has gone by (term of contract is for 3 years). Tom Cupples does not believe that Frontier will ask for the Lab system at this point in the contract, and also notes that Cisco has general reserves set up to catch unexpected expenses. PwC concludes that this explanation appears reasonable and a reserve is not necessary.

PwC concludes that the client's proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;
b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);
c) it is probable that Frontier will pay being that it is a large, established company; and
d) product revenue will be recognized upon cash receipt due to the acceptance clause.

MCI / Newbridge

PwC examined the MCI agreement, noting that Cisco agreed to remove MCI's existing Newbridge ATM network and replace it at no cost to MCI, with a Cisco ATM network including

PWC 018333
Network Parity. Per Mrinalini Ingram, Revenue Recognition, certain work has already been completed related to this replacement. To complete the replacement, BCC4 cards are still required. To complete the Network Parity requirement, MGXs and OC 48s are still required. All product required for such replacement and parity are available. (Once the new network is up, any new purchases from the customer will be paid for by the customer.) Using a 45% discount off list, the net value of the equipment and services required to complete such replacement are valued at $12.8M. Accordingly, this balance has been deferred until such obligations are complete. PwC examined and recalculated the Client’s analysis for the deferral, noting that it appears reasonable.

In addition to product sale, Cisco is entitled to provide maintenance service to MCI. The agreement provides the following maintenance prices:

- an annual two percent (2%) of product sales per the product list price, but not to exceed $20.5M for the first term, $22.5M in the second term, and $23M in the third term;
- service fees applicable to new purchases will be based on the 2% annual support fee; and
- for products other than the domestic base products, the support fees will be based on a ratio calculation provided in the contract.

Maintenance revenue is deferred in total and recognized on a straight-line basis over the term of the contract.

Additionally, PwC notes that MCI is entitled to the following standard terms which are consistent among different customers:

- the terms of this contract apply to upgrades which must be purchased by the customer;
- standard and volume discounts which are applied to the invoice, and therefore, a reserve is not applicable;
- standard hardware, software and support options; and
- CCO (Cisco Connection Online) Access.

PwC concludes that the the Client’s proposed method of recognizing revenue against this contract appears to be in accordance with SOP 97-2 due to the following:

a) an agreement exists;

b) financial elements exist in the contract (i.e., Price list less applicable discounts specified in the agreement);

c) it is probable that MCI will pay being that it is a large, established company; and

d) product revenue will be recognized upon shipment and maintenance revenue is recognized on a straight-line basis over the term of the contract.

6. Completed within immaterial amounts.

7. Completed without exception.

8. Completed.

Linked Strategy Factors:

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Jaime Wayland

**Reviewed By:**
James W. Sullivan

**Review Categorization:**

### Maintenance

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<td><strong>Editors:</strong></td>
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Exhibit II
### Audit-plan FY2001

**Scheduled audit-plan FY2001**

The purpose of our audit plan is to communicate formally the status of our audit on the accounts of Cisco Systems International BV. The schedule has been based on our final, agreed, audit plan. Account balances not specifically mentioned in the schedule are covered by the quarterly key reconciliations. Furthermore, audit work in italics covers still outstanding audit work to be followed up in the next Quarterly Visit.

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<th>Visit 2 - Week 7 and 10</th>
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<th>Visit 3 - Week 19 and 20</th>
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</tr>
<tr>
<td>Net System Sales</td>
<td>Update understanding customer financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 1 – Week 45 and 46</td>
<td>Visit 2 – Week 7 and 10</td>
<td>Visit 3 – Week 19 and 20</td>
<td>Final Visit – Week 31 and 32</td>
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<td></td>
<td>I/C Commission/Cost plus Fees</td>
<td>I/C Commission/Cost plus Fees</td>
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<tr>
<td></td>
<td>Monitoring controls</td>
<td>Year-end reconciliations</td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td>Shared Resource Allocation</td>
<td></td>
</tr>
</tbody>
</table>
2 Quarter 1 - Findings

Q1FY2001.1 Key reconciliations

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cisco uses monthly reconciliations of key accounts as a control tool for managing the financial reporting and the number of key reconciliations performed each month has improved significantly over the last year. As at October 2000 all key reconciliations, with the exception of stock options and payroll (see Q1 FY 2001.1 Point Forward), were performed.</td>
<td>We recommend that the understanding of those performing the reconciliations be improved to ensure that the control function of the reconciliations is achieved.</td>
</tr>
<tr>
<td>It does not appear that these reconciliations are fully reviewed after completion, to monitor and investigate reconciling items. This is the key control function of performing these reconciliations. We noted that some of the reconciliations appears to be performed very mechanically without having a full understanding of the reasons for the reconciliation.</td>
<td></td>
</tr>
<tr>
<td>It is our understanding that the actual content of the reconciliations will be addressed in the future in order to ensure that the reconciliations purposes are being properly met.</td>
<td></td>
</tr>
</tbody>
</table>
Q1FY2001.2 EOC Corporate Commentary

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>During our analysis on the information included in the monthly EOC</td>
<td>We recommend that the financial information which the commentary</td>
</tr>
<tr>
<td>Corporate Commentary, which is sent to Cisco Inc., we noted that</td>
<td>is based, be thoroughly reviewed by management.</td>
</tr>
<tr>
<td>included financial information (A/R Ageing) did not reconcile to</td>
<td></td>
</tr>
<tr>
<td>the underlying financial reporting as per the end of the month</td>
<td></td>
</tr>
<tr>
<td>(P3). This was due to information used of Closing Day –1 and not</td>
<td></td>
</tr>
<tr>
<td>updating it at the actual period end.</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Recommendation</td>
</tr>
<tr>
<td>-------</td>
<td>----------------</td>
</tr>
<tr>
<td>This quarter, four bundled service contracts were chosen for review. Based on our discussions with Marc Thelosen, we understand that the following contracts represent approximately 70% of total bookings for contracts P3 with revenue recognition issues: (i.e. monitored in Revtrack)</td>
<td></td>
</tr>
<tr>
<td>We recommend that Cisco performs a detailed review of potential revenue recognition issues. These should include assessment of the need for contract accounting; review of the tools required for monitoring complex contracts from receipt of receivables, i.e. an overall deal profitability tool that includes all components of the transaction. This would also facilitate the completeness of where SOP 97-2 is being followed there needs to be documentary evidence that VS-REC can be determined for all separate products and services to allow for separate revenue recognition. This evidence needs to be put in place, to improve the business knowledge of deals within the finance function. This would involve more communication with the parties negotiating the deals to ensure all implications are addressed at an early stage and that finance personnel get a full understanding of the practical aspects of these deals; close independence with the Deal desk</td>
<td></td>
</tr>
<tr>
<td>Each contract was summarised noting all possible clauses that may have an effect on revenue recognition (See attached schedule).</td>
<td></td>
</tr>
<tr>
<td>Most contracts are short-term. However, most are complex in nature and revenue is being recognised when acceptance criteria have been met. Acceptance terms can be determined in several ways, i.e. for the whole contract, for part of the contract (i.e. per purchase order) or for individual sites.</td>
<td></td>
</tr>
<tr>
<td>As the complexity of these contracts increases, a full understanding of the terms of the contract and the practical application of the contracts will continue to be required to be able to address the revenue recognition issues.</td>
<td></td>
</tr>
<tr>
<td>Cisco already has transactions that would appear to be long-term contracts (i.e. Phase 2-3 of G2005). The revenue recognition of this contract has not yet been determined by Cisco. In addition, it appears that this contract has been written to try and avoid that Cisco is in a prime role. However, there is an overall clause which requires Cisco to accept any commitment not met by Telor and therefore this appears to indicate that Cisco should be considered as prime in this contract.</td>
<td></td>
</tr>
</tbody>
</table>
## Contract review overview

<table>
<thead>
<tr>
<th>Contract Selected</th>
<th>Expected Deal Value</th>
<th>Amount on Hold</th>
<th>Amount Deferred (Product &amp; Services)</th>
<th>Revenue Recognised to date</th>
<th>Cisco’s Accounting treatment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 British Telecom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The following comments apply to all BT deals. With regards to the comments, there is no line by line correspondence.</td>
</tr>
<tr>
<td>- Data Dial</td>
<td>80,899.847</td>
<td>590,356</td>
<td>-</td>
<td>74,682.586</td>
<td>Site by site acceptance based on functionality of each site with individual capacity to stand alone</td>
<td>Due to customer requests, manual invoicing had to be performed. The customer requests could not be handled by the current Cisco structure. Therefore, there is room for structural improvements to allow for flexibility.</td>
</tr>
<tr>
<td>- Colussus</td>
<td>24,086.526</td>
<td>814,518</td>
<td>-</td>
<td>21,351.790</td>
<td>Each acceptance of work based on customer purchase order</td>
<td>For acceptance of work based on customer purchase orders, an understanding of the product to be delivered and its corresponding acceptance is necessary to determine when revenue should be taken. This is currently performed by Marc Theoosen.</td>
</tr>
<tr>
<td>- MSP</td>
<td>7,347.179</td>
<td>1,304.413</td>
<td>726.880</td>
<td>5,476.504</td>
<td>Acceptance based on operability, not exactly site by site, 14 of 16 sites accept at once</td>
<td></td>
</tr>
<tr>
<td>- Broadband</td>
<td>13,312.912</td>
<td>6,067.079</td>
<td>-</td>
<td>1,907.108</td>
<td>Each acceptance of work based on customer purchase order</td>
<td></td>
</tr>
<tr>
<td>2 CableCom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>This contract is an example of Cisco’s standard Service Provider contract with an exhibit which addressed customer needs above and beyond the standard contract. Statement of Work outlining professional services involved in this contract still outstanding. Product involved in contract includes a ring of mirrors (optic receivers/senders) which when in place, the ring is functional. There is an ability to add capacity without effecting the original functionality of the ring or network.</td>
</tr>
<tr>
<td>First Optics purchase order – Exhibit G</td>
<td>5,362.496</td>
<td></td>
<td>147,528</td>
<td>4,142,031</td>
<td>Network achieved acceptance and revenue was taken. Still awaiting additional card, although card does not inhibit current network from functioning.</td>
<td></td>
</tr>
</tbody>
</table>
### Contract review overview (continued)

<table>
<thead>
<tr>
<th>Contract Selected</th>
<th>Expected Deal Value</th>
<th>Amount on Hold</th>
<th>Amount Deferred (Product &amp; Services)</th>
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<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 DIAX</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appendix 1/3 and 1/4</td>
<td>9,748.338</td>
<td>153,090</td>
<td>1,597,667</td>
<td>8,988,791</td>
<td>Revenue recognised for both phases (as specified in Appendix 1/3 and 1/4)</td>
<td>Amount deferred includes both professional services and product. 600K of product revenue is being deferred due to liquidated damages clause. 997K of professional services has been recognised as revenue and RevTrak had not yet been updated. Although, the Phase 1 configuration of system has been accepted and revenue recognised the customer is still awaiting Phase 2. The customer has entered the contract with the expectation of having both phases accomplished. Therefore, although Phase 1 has its own acceptance, its questionable whether the revenue should have been recognised after Phase 1 due to the client’s end result expectation of having all phases completed. Contract has been fully performed, accepted and revenue recognised with the exception of the liquidated damages.</td>
</tr>
</tbody>
</table>
## Contract review overview (continued)

<table>
<thead>
<tr>
<th>Contract Selected</th>
<th>Expected Deal Value</th>
<th>Amount on Hold</th>
<th>Amount Deferred (Product &amp; Services)</th>
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<th>Cisco’s Accounting treatment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gigasurf/ Telfort</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase 1</td>
<td>13,553.000</td>
<td>-</td>
<td></td>
<td>548.937</td>
<td>Phase 1, revenue recognised due to Go/No Go decision</td>
<td>If Phase 1 was not accepted, Gigasurf would pay all costs incurred and a penalty of NLO 2 mil and therefore, the revenue was taken.</td>
</tr>
</tbody>
</table>
| Phase 2-3         | 4,500.000           | 860.280        | 248.040                              | 248.040                     | Phase 2-3, deferring revenue due to back to back clause | This contract extends over several year ends.  
Cisco tries to avoid being the prime party in the contract, but do not achieve this due to the back to back clause requiring Cisco to fulfill any commitment made by Telfort in Telfort’s absence.  
According to Marc Theelosen, it has not yet been decided how to account for the revenue corresponding to Phase 2-3.  
The following should be considered with regards to recognising revenue, acceptance is required at the end of the pre-production phase (phase 2) and scaling up phase (phase 3) although with supplier testing.  
The payment and terms of the exploitation phase are still be addressed. |
Quarter 1 – Point Forward Issues

Q1FY2001.1 Analytics

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendation/Point forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>We request that the supporting documentation be made available at Q 2. Additionally, discussions need to be held regarding the accounting treatment of the investments.</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>During our analytical review, it was noted that underlying signed documentation substantiating an investment in Pirelli Submarines in the amount of USD 76.5 million is outstanding. This is also the case for an investment in Nettol SA, amounting to USD 200,000.</td>
<td></td>
</tr>
<tr>
<td>Generally, it is understood that investments at cost are recorded in the books of Cisco Systems International BV. Investments at equity are to be recorded in the books of Cisco Management BV. In Cisco Systems International BV will be true investements (eg. 90% holding), while Cisco Systems Management BV is a holding co of the Cisco entities.</td>
<td></td>
</tr>
<tr>
<td>Cisco Management B.V.</td>
<td></td>
</tr>
<tr>
<td>The company currently (year-end July 31, 2000) qualifies as a small company and does not require audited financial statements. With the acquisitions in FY 2001, this situation could change and should be monitored accordingly.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Advances</td>
<td></td>
</tr>
<tr>
<td>Cisco Manufacturing Finance, makes advance payments to Contract Manufacturers in order to let them meet Cisco’s Manufacturing Build Plan. Documentation of the advance payment to Celestica is outstanding.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Advances</td>
<td></td>
</tr>
<tr>
<td>Additionally, the inventory levels for this quarter have increased to approximately USD 1 billion.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Advances</td>
<td></td>
</tr>
<tr>
<td>Due to the type of products Cisco offers coupled with the increases in inventory, the related risk and inventory obsolescence need to be addressed.</td>
<td></td>
</tr>
</tbody>
</table>
### Q1FY2001.2 VAT

**Point Forward**

PwC are currently advising Cisco on the potential VAT exposure arising from the potential difference arising from the treatment of transactions under the Cisco Business Model compared with local VAT legislation. We understand that there may be potential VAT exposures, which are currently difficult to quantify.

We understand that action steps have been proposed to the US to address this issue and we will continue to monitor the situation in our next visit. There will also be country visits undertaken by Cisco to gather more in depth information to enable appropriate actions to be taken. PwC will provide input for these local visits.

**Recommendation/Point Forward**

PwC to liaise with Fritz Meijaard/Bill Ward to monitor developments.

### Q1FY2001.3 Ariba implementation

**Point Forward**

This quarter we updated our understanding of the purchase cycle. We learned that a new application is currently being built and tested to process purchase orders called Ariba. Therefore, we have not performed our test work regarding the purchase cycle and this will be addressed at Q2.

**Recommendation/Point Forward**

Lynn Poelman and Martijn Huisman to schedule a meeting with Jezz Noor regarding Ariba's functionality and implementation. Additionally, our GRMS department will need to test the new application and its relation to Oracle. We will follow this up in our Q2 visit.
Exhibit JJ
Statement of Financial Accounting Standards No. 5

FAS5 Status Page
FAS5 Summary

Accounting for Contingencies

March 1975

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116
Statement of Financial Accounting Standards No. 5

Accounting For Contingencies

March 1975

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</table>
FAS 5: Accounting for Contingencies

INTRODUCTION

1. For the purpose of this Statement, a contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (hereinafter a "gain contingency") or loss 1 (hereinafter a "loss contingency") to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.

2. Not all uncertainties inherent in the accounting process give rise to contingencies as that term is used in this Statement. Estimates are required in financial statements for many on-going and recurring activities of an enterprise. The mere fact that an estimate is involved does not of itself constitute the type of uncertainty referred to in the definition in paragraph 1. For example, the fact that estimates are used to allocate the known cost of a depreciable asset over the period of use by an enterprise does not make depreciation a contingency; the eventual expiration of the utility of the asset is not uncertain. Thus, depreciation of assets is not a contingency as defined in paragraph 1, nor are such matters as recurring repairs, maintenance, and overhauls, which interrelate with depreciation. Also, amounts owed for services received, such as advertising and utilities, are not contingencies even though the accrued amounts may have been estimated; there is nothing uncertain about the fact that those obligations have been incurred.

3. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. This Statement uses the terms probable, reasonably possible, and remote to identify three areas within that range, as follows:

a. Probable. The future event or events are likely to occur.
b. Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
c. Remote. The chance of the future event or events occurring is slight.

4. Examples of loss contingencies include:

a. Collectibility of receivables.
b. Obligations related to product warranties and product defects.
c. Risk of loss or damage of enterprise property by fire, explosion, or other hazards.

d. Threat of expropriation of assets.

e. Pending or threatened litigation.

f. Actual or possible claims and assessments.

g. Risk of loss from catastrophes assumed by property and casualty insurance companies including reinsurance companies.

h. Guarantees of indebtedness of others.

i. Obligations of commercial banks under "standby letters of credit."

j. Agreements to repurchase receivables (or to repurchase the related property) that have been sold.

5. Some enterprises now accrue estimated losses from some types of contingencies by a charge to income prior to the occurrence of the event or events that are expected to resolve the uncertainties while, under similar circumstances, other enterprises account for those losses only when the confirming event or events have occurred.

6. This Statement establishes standards of financial accounting and reporting for loss contingencies (see paragraphs 8-16) and carries forward without reconsideration the conclusions of Accounting Research Bulletin (ARB) No. 50, "Contingencies," with respect to gain contingencies (see paragraph 17) and other disclosures (see paragraphs 18-19). The basis for the Board's conclusions, as well as alternatives considered and reasons for their rejection, are discussed in Appendix C. Examples of application of this Statement are presented in Appendix A, and background information is presented in Appendix B.

7. This Statement supersedes both ARB No. 50 and Chapter 6, "Contingency Reserves," of ARB No. 43. The conditions for accrual of loss contingencies in paragraph 8 of this Statement do not amend any other present requirement in an Accounting Research Bulletin or Opinion of the Accounting Principles Board to accrue a particular type of loss or expense. Thus, for example, accounting for pension cost, deferred compensation contracts, and stock issued to employees are excluded from the scope of this Statement. Those matters are covered, respectively, in APB Opinion No. 8, "Accounting for the Cost of Pension Plans," APB Opinion No. 12, "Ornibus Opinion—1967," paragraphs 6-8, and APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accounting for other employment-related costs, such as group insurance, vacation pay, workmen's compensation, and disability benefits, is also excluded from the scope of this Statement. Accounting practices for those types of costs and pension accounting practices tend to involve similar considerations.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Accrual of Loss Contingencies

8. An estimated loss from a loss contingency (as defined in paragraph 1) shall be accrued by a charge to income if both of the following conditions are met:
the lessor and the lessee was a capital lease or
an operating lease. And it stopped the practice
of providing the 25 percent reserve.

Q And do you believe that that was
appropriate?
A Yes.

Q At the time that Cisco changed its
accounting methodology for guaranteed leases, did
it take a charge to correct for revenue that was
recognized previously on guaranteed leases?
A No. And I'm assuming what you're saying
is guaranteed leases during fiscal 2000 and
prior?
Q Correct.
A They did start to take a charge for
leases that occur in the first quarter of fiscal
2001; or rather they didn't recognize revenue.
QWould you turn to page 38 of your
report?
A 38?
Q Yeah. This is Exhibit 4223. I would
like to direct you to the last paragraph on that
page. I'm going to read into the record.

It says, "In my experience, many issuers
and auditors reasonably believed during this time
frame that the provisions of FAS 5, accounting
for contingencies, which, unlike FAS 13,
specifically addresses guarantees, apply to
situations such as capital corporation's lease
guarantees.

FAS 34, which interprets FAS 5, requires
the disclosure in financial statements of
indirect guarantees of the indebtedness of others
where such guarantees are material to the
financial statements taken as a whole."

When you said many issuers and auditors
believe that that was the appropriate way to
account for guarantees, what issuers were you
referring to?

A Well, I don't have a list of particular
issuers. I can tell you that during this -- I've
been interested in lease accounting for a long
period of time.

When I was a resident in Arthur Young's
National office, part of my training, I was
assigned the job of being the system architect
for a program that would classify and account for
leases in accordance with the then-newly issued
FAS 13. So I had my head into FAS 13 for the
better part of six months.
And then, as I mentioned in a footnote,

FAS 13 over time has been the most amended
standard that was ever issued by the FASB, being
amended and modified 80 times. That's the time I
wrote my report.

So I maintained my interest in lease
accounting. And in the course of consulting,
leases are a common fixture of many companies as
lessees. It's less common to, you know, have
lessors as clients. I did happen to have one
lessor as a client, a computer leasing company
which had similar issues to this.

But I was the auditor in periods prior
to this December '99 change being announced by
the SEC. And I had had discussions within Ernst
and Young about accounting. And I think the
general consensus was that what paragraph 21 and
22 did was deal with rights of ownership. They
did not deal with credit risk. And that credit
risk in the form of a guarantee was most
appropriately accounted for under FAS 5.

And since that was my understanding of
Ernst and Young's general position, and since
Ernst and Young audits a number of major leasing
companies in the world, including International
Lease Finance, which was a client that leases virtually every aircraft known to man, then I felt relatively comfortable in making the statement in my report that this was the state of the art at that time.

Also, I know that when this speech came out, it was kind of a -- it wasn't a ho hum type of thing, something like, oh, yeah, well, who hasn't been doing that all along. It was something that was really a new and novel application of the FAS 13.

Now, I recollect that Mr. Weil took exception to this SEC pronouncement on theoretical grounds. Well, he operates at the theoretical level. I, as a CPA reviewing and attesting financial statements, operate closer to ground level, and just accepted it for what it was. But what it was to me was a change in practice.

And this kind of change in practice and this method of reporting changes in practice was not unheard of. There were other items where the SEC kind of felt there was mixed practice among issuers, and it wanted to -- it wanted to narrow the range of divergent practices. And so it made
its views known in a speech such as this December '99 speech.

But it didn't have any due process associated with it. It wasn't a staff accounting -- you know, memorialized in a staff accounting bulletin or any rule or regulation that was published by the SEC. It was only memorialized in the speech itself.

It didn't contain any effective date as most accounting pronouncements do. So, you know, my understanding was the SEC was basically saying there have been different ways of doing that. We are not saying one is right, one is wrong. But we are saying we want to have things done one way, and this is the way we want to have it done.

So, you know, industry would start to gravitate to that practice. And Cisco, in light of its materiality of this area, appropriately changed at the beginning of its next fiscal year. And I don't think it was necessary to do an accounting change under APB 20 to calculate the cumulative effect of changing from one acceptable accounting principle to another because it wasn't that large an item.
Can you identify any issuers that you specifically and personally know held the belief that you described at the bottom of that page?

A Yes. This computer leasing company that I talked about.

Q What's the name of it?

A Well, it's a private company, so I'm not allowed to disclose that information.

Q Any other companies?

A Well, that was the only leasing company that I audited.

Q All right. Can you identify any auditors that held the belief that you described here? And I mean individuals, not firms.

A Individuals?

Q Yeah.

A Well, I would say Robert Keeble. He's the director of accounting and auditing for Ernst and Young in the west region.

Q Anyone else?

A In our system that was enough.

Q And was the belief that you describe at the bottom of page 38 of your report memorialized in any of Ernst and Young's internal literature?

A I am not sure. You know, I -- I
STATE OF CALIFORNIA   ) ss:
COUNTY OF SONOMA    )

I, LINDA VACCAREZZA, CSR No. 10201, a Certified Shorthand Reporter of the State of California, do hereby certify:

That the foregoing proceedings were taken before me at the time and place therein set forth; that any witnesses in the foregoing proceedings, prior to testifying, stated that they would tell the truth under penalty of perjury; that a verbatim record of the proceedings were made by me using machine shorthand which was transcribed under my direction and supervision; further, that the foregoing is an accurate transcription thereof.

I further certify that I am neither counsel for nor related to any party to said action, nor in any way interested in the outcome thereof.

IN WITNESS WHEREOF, I have subscribed my name this 14th day of March, 2006.

LINDA VACCAREZZA, CSR No. 10201
Exhibit LL
From: Jim MacCallum <jmaccall@cisco.com>
Sent: Mon 12 Mar 2001 13:30:47 -0800
To: Mrinalini Ingram <mringra@cisco.com>
Subject: FAS 48 reserve

Mrinalini,

Attached is an initial analysis based on several assumptions.
Let's discuss.

Jim

Attachment Converted: "d:\documents and settings\mringra\my documents\email\attach\FAS 48 reserve.doc"
Memos

To: Revenue File
CC: Mrinalini Ingram
From: Jim MacCallum
Date: March 12, 2001
Subject: FAS 48 Reserve

Other than two-tier distributors, Cisco has no formal right of return but for various reasons including warranty and customer satisfaction issues Cisco will grant Return Materials Authorizations. Through the end of December 2000, monthly RMA's have been consistent at approximately $60 million. However, in January 2001, RMA’s spiked to $302 million and in February 2001 were $263 million. Clearly with the changing economic environment customers did not require the amount of product that they originally purchased, and Cisco took it back.

FAS 48 states that “if an enterprise sells its product but gives the buyer the right to return the product, revenue from the sales transaction shall be recognized at time of sale only if all of the following conditions are met:

a. The seller’s price to the buyer is substantially fixed or determinable at the date of sale.

b. The buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product.

c. The buyer’s obligation to the seller would not be changed in the event of theft of physical destruction or damage of the product.

d. The buyer acquiring the product for resale has economic substance apart from that provided by the seller.
March 12, 2001

e. The seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer.

f. The amount of future returns can be reasonably estimated.

The ability to make a reasonable estimate of the amount of future returns depends on many factors and circumstances that will vary from one case to the next."

Cisco has had the following non-two tier RMA's over the past 14 months:

**Monthly Open RMA Report**

<table>
<thead>
<tr>
<th>Month</th>
<th>Open RMA $</th>
<th>Non-Tier Shipments</th>
<th>% RMA of Two Tier Shipments</th>
<th>Six month Reserve</th>
<th>FAS 48 Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN FY2000</td>
<td>($64,027,520)</td>
<td>1,202,421,587</td>
<td>5.37%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEB FY2000</td>
<td>($58,148,210)</td>
<td>1,159,365,595</td>
<td>5.10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAR FY2000</td>
<td>($82,442,303)</td>
<td>1,170,563,693</td>
<td>7.94%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APR FY2000</td>
<td>($26,847,048)</td>
<td>1,637,304,012</td>
<td>1.64%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAY FY2000</td>
<td>($92,322,176)</td>
<td>1,256,181,019</td>
<td>5.44%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUN FY2000</td>
<td>($57,037,000)</td>
<td>1,270,365,000</td>
<td>4.49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUL FY2000</td>
<td>($73,789,412)</td>
<td>2,204,498,150</td>
<td>3.68%</td>
<td>4.45%</td>
<td>$201,569,930</td>
</tr>
<tr>
<td>AUG FY2000</td>
<td>($58,290,553)</td>
<td>1,548,060,021</td>
<td>4.41%</td>
<td>4.36%</td>
<td>$210,151,502</td>
</tr>
<tr>
<td>SEP FY2000</td>
<td>($56,665,070)</td>
<td>1,524,673,291</td>
<td>3.69%</td>
<td>3.79%</td>
<td>$192,579,432</td>
</tr>
<tr>
<td>OCT FY2000</td>
<td>($57,916,913)</td>
<td>2,400,779,429</td>
<td>2.63%</td>
<td>3.91%</td>
<td>$214,236,431</td>
</tr>
<tr>
<td>NOV FY2000</td>
<td>($51,003,473)</td>
<td>1,232,330,822</td>
<td>4.15%</td>
<td>3.75%</td>
<td>$193,458,162</td>
</tr>
<tr>
<td>DEC FY2000</td>
<td>($51,040,171)</td>
<td>1,446,829,155</td>
<td>4.22%</td>
<td>3.73%</td>
<td>$189,245,972</td>
</tr>
<tr>
<td>JAN FY2001</td>
<td>($302,176,937)</td>
<td>2,786,281,210</td>
<td>10.95%</td>
<td>5.85%</td>
<td>$303,166,594</td>
</tr>
<tr>
<td>FEB FY2001</td>
<td>($263,007,010)</td>
<td>1,148,274,504</td>
<td>22.60%</td>
<td>7.60%</td>
<td>$409,253,205</td>
</tr>
</tbody>
</table>

Total Open RMAs: ($1,312,492,197)
The following analysis is based on two assumptions:

1) If product is sold in one quarter, 100% of the RMA's will be opened in the next quarter. (ie if product is sold in Q1, 100% of the RMA's related to Q1 will be opened in Q2).

2) All RMA's should be accrued for under FAS 48. (ie none of the returns are covered under warranty).

3) The RMA reserve is based on a six month rolling average of Open RMA's to non-two tier shipments. This assumption would have to be reviewed in light of January's increased return activity.

Based on the above assumptions, the following accruals should have been made:

- At July 31, 2000, a FAS 48 return of $201.6 million.
- At October 31, 2000, a FAS 48 return of $214.2 million.
- At January 31, 2000, a FAS 48 return of $303.2 million.
In re: ) No. C-01-20418-JW
CISCO SYSTEMS, INC., )
SEcurities LITIGATION )
This document relates to: )
ALL ACTIONS. )

VIDEOTAPEd DEPOSITION OF JAMES MCKENZIE MacCALLUM

Wednesday, August 10, 2005
bankrupt?

MS. FRITZ: Object to the question, ambiguous.

A. That didn't really come into play, no.

BY MS. WEAVER:

Q. And you didn't look at debookings for any trending information?

A. No.

MS. WEAVER: I'll mark as Exhibit 1082 a document bearing Bates Number CIS-PPNPF-HC_0055778 through 781.

(Deposition Exhibit Number 1082 was marked for identification)

BY MS. WEAVER:

Q. What is Exhibit 1082?

A. This is a memo that I wrote up on the FAS 48 reserve.

Q. And did you email it to Mrinalini Ingram?

A. Yes, I did.

Q. What is FAS 48?

A. You know, I can't remember the title of it. It's -- I don't know.

It might be sales reserves or -- I can't remember the title.

Q. And why did you draft an email regarding
FAS 48?

A. I was looking into the returns reserve.

Q. Looking at the first sentence of the exhibit, do you see where you wrote "Other than two-tier distributors, Cisco has no formal right of return, but for various reasons including warranty and customer satisfaction issues Cisco will grant return materials authorization"? Do you see that?

A. Yes.

Q. Is that true?

A. Yes.

Q. And then the second sentence reads "Through the end of December 2000 monthly RMAs have been consistent at approximately 60 million dollars." Do you see that?

A. Yes.

Q. Was that true?

A. I have no reason to believe otherwise.

Q. And what was that based on, that 60 million dollar figure?

MR. ROCKY: Vague and ambiguous.

A. I don't recall.

BY MS. WEAVER:

Q. Do you know where you obtained the information that you used to prepare this memo?
A. Not specifically.

Q. Do you know generally?

A. I would have used RMA data.

Q. Looking to the second page of the exhibit, do you see where it says "Monthly open RMA report"?

A. Yes.

Q. Is that referring to the monthly open RMA reports that we were referring to earlier?

A. I'm not sure. What exhibit is it? 67?

Q. Yes, 1067, I believe.

MS. FRITZ: Can you read the question again, please?

(Question read)

MS. FRITZ: Object to the question. It misstates the testimony.

A. I don't know.

BY MS. WEAVER:

Q. Where did you obtain the data that's set forth on Page 2 of your memo?

A. I don't recall.

Q. Did you obtain it from a Cisco database that tracked RMAs to the best of your belief?

A. I probably would have got it from Erik Alberts. He was my analyst and did a lot of this work.
STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

I, Mary Hogan, CM, Certified Shorthand Reporter, do hereby certify:

That the witness in the foregoing deposition was by me duly sworn; that the deposition was then taken before me at the time and place herein set forth; that the testimony and proceedings were reported stenographically by me and later transcribed under my direction and supervision; that the foregoing is a true record of the testimony and proceedings.

In witness whereof, I hereunto set my hand and affixed my signature this 12th day of August, 2005.

Mary Hogan

MARY HOGAN, CM, CSR NO. 5386
Exhibit MM
Cisco Systems
Q3 FY01 Inventory and Restructuring Charges
July 24, 2001

CONFIDENTIAL
Agenda

- Introductions
- Introductory Comments
- Overview of Key Cisco Processes
- Q3 FY01 Excess Inventory Charge
- Q3 FY01 Restructuring Charge
- Summary
Larry Carter Direct Reports

Audit Committee

CFO & Sr. VP

Executive Vice President

Chief Financial Officer

President

Vice President - Finance

General Counsel

Controller

Vice President - Information Tech

Chief Financial Officer

Chief Administrative Officer

Compliance Officer

CFO Direct Reports
Cisco Systems Quarterly Revenue through Q1 FY01

- Very Strong Growth Trend

![Graph showing quarterly revenue and percentage change](image)

- Very long lead times due to manufacturing capacity and supply/components constraints (Q3 FY00)
- Result – Lost sales and negative customer satisfaction
- Decision – Build inventory and extend purchasing commitments
  - We discussed and disclosed risks in earnings calls and SEC filings
Demand Dropped Very Severely and Caught Everyone by Surprise

- Uniformly caught technology companies at the same time (see charts)
- Macro economic issue vs. company issue

"We have had an unprecedented amount of interest rate cutting in a very short period of time. There's really nothing that matches this particular record of aggressive cuts in such a short period of time. And what that reflects is the reality that the speed and the severity of the slowdown in the U.S. economy took everyone by surprise including the maestro himself, Alan Greenspan."

Laura Tyson
Dean, Haas School of Business
University of California, Berkeley
May 15, 2001
Revenue Trend
Emerging Network Equipment

- Extreme
- Foundry
- Juniper
- Redback
- Sycamore

$ Millions

Mar-00  Jun-00  Sep-00  Dec-00  Mar-01  Jun-01

+12%  -39%  +24%  -23%  -21%  -64%
Key Cisco Processes

- Financial Close
- Material/Production Planning
- Inventory Reserves
Key Close Process Meetings

- Workday minus 4: Revenue Recognition/Rev Trak Review
- Workday minus 4: Corporate Revenue Reserves and Deferral Review
- Workday minus 3: Inventory Reserves and Warranty Accrual Review
- Workday minus 2: Accrued Liabilities Review
- Workday 1: Consolidated Balance Sheet and Income Statement Completed
- Workday 3: International Close Review
- Workday 3: Corporate Close Meeting
## Corporate Revenue Reserves & Deferral Meeting Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Person(s)</th>
<th>Time</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Debt Specific Reserves</td>
<td>John Della Marco</td>
<td>1:00 - 1:40</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Maureen Thomas</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Judi Gardner</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sue Perkins</td>
<td>1:40 - 2:10</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Michael Gonzalez</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Doc Tran</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cynthia Farrell</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease &amp; Loan Reserves</td>
<td>Jim Fuller</td>
<td>2:10 - 2:35</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Susan Mcdonough</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rick Harris</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greg Sue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service and PS Reserves &amp; Deferrals</td>
<td>Johanna Caplan</td>
<td>2:35 - 3:05</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Beth Kelly</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**General Comments**

Please plan on attending your portion of the meeting only. Please arrive 5-10 minutes prior to your time in order to keep the meeting timely. All revenue reserve entries will be finalized and booked to the G/L by end of day, July 25, 2001 in order to update RapidRevenue. Any revenue reserve entries booked beyond this date must be approved by Mrinalini Ingram.

**Other Attendees**

Mary Kadomoto  
Dennis Powell  
Joane Nelson  
Sandi Austin  
Michelle Leung  
Jim MacCallum  
Erik Alberts  
Mrinalini Ingram
# Accrual Presentation Example Agenda

<table>
<thead>
<tr>
<th>Name</th>
<th>Time</th>
<th>Minutes</th>
<th>Account(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>W.W. Sales HQ / Asia / EMEA:</td>
<td>1:30 - 1:50</td>
<td>20</td>
<td>22759 - Exp. Accrual - Asia Sales Finance</td>
</tr>
<tr>
<td>Mike Yang / Amy Kwan</td>
<td></td>
<td></td>
<td>22751 - Accrual - WW Sales</td>
</tr>
<tr>
<td></td>
<td>1:50 - 2:00</td>
<td>10</td>
<td>21010 - Accrued Commissions</td>
</tr>
<tr>
<td>Sales Finance</td>
<td></td>
<td></td>
<td>21043 - Accrued Commissions - ESO</td>
</tr>
<tr>
<td>Tim Fairman / Debbie Kaya</td>
<td></td>
<td></td>
<td>21044 - Accrued Commissions - Channels</td>
</tr>
<tr>
<td></td>
<td>2:00 - 2:05</td>
<td>5</td>
<td>21041 - Accrued Commissions - US</td>
</tr>
<tr>
<td>Sales Finance - Channels</td>
<td></td>
<td></td>
<td>22758 - Expense Accrual America Sales</td>
</tr>
<tr>
<td>Beth Kelly</td>
<td>2:05 - 2:15</td>
<td>10</td>
<td>22763 - Exp Accrual - Global Partners</td>
</tr>
<tr>
<td>Sales Finance - Service Provider</td>
<td></td>
<td></td>
<td>21042 - Accrued Commissions - SP</td>
</tr>
<tr>
<td>Shawn Burton / Malou Nelson</td>
<td>2:15 - 2:20</td>
<td>5</td>
<td>22817 - Accrued Expenses - SP Sales</td>
</tr>
<tr>
<td>Sales Finance - Americas Int'l</td>
<td></td>
<td></td>
<td>22757 - Exp Acc Americas International</td>
</tr>
<tr>
<td>Javier Camacho / Angela Nguyen</td>
<td>2:20 - 2:25</td>
<td>5</td>
<td>22816 - Expense Accrual Sales Operations</td>
</tr>
<tr>
<td>Sales Finance – WW Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Chamberlin / James Blum</td>
<td>2:25 - 2:35</td>
<td>10</td>
<td>Various payroll accruals</td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
<td></td>
<td>Brobeck, Phleger &amp; Harrison LLP</td>
</tr>
<tr>
<td>Kim Davis</td>
<td>2:35 - 2:40</td>
<td>5</td>
<td>One Market</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>2:40 - 2:50</td>
<td>10</td>
<td>Spear Street Tower</td>
</tr>
<tr>
<td>Tom Cupples / Aimee Fuller</td>
<td></td>
<td></td>
<td>San Francisco, CA 94105</td>
</tr>
<tr>
<td>I.T.</td>
<td></td>
<td></td>
<td>(415) 442-0900</td>
</tr>
<tr>
<td>Shawn Reeves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>20313 - Misc. IS Accruals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>22675 - Phone Expense Reserve</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>22676 - PC Leasing Program</td>
</tr>
</tbody>
</table>

C/S 01330
<table>
<thead>
<tr>
<th>Name</th>
<th>Time</th>
<th>Minutes</th>
<th>Account(s)</th>
</tr>
</thead>
</table>
| Corporate G&A                     | 2:50 - 3:00 | 10 minutes | 22677 – Accrued Leasing Costs  
                              |         |         | 22678 – Finance CFP                   |
| Stephen Jelso                     | 3:00 - 3:10 | 10 minutes |                                                |
| Break                             | 3:10 - 3:15 | 5 minutes  | 22540 – Company Function Reserve              |
| Human Resources                   |         |         |                                                |
| Aparna Bhardwaj                   |         |         |                                                |
| Commission Accounting             | 3:15 - 3:20 | 5 minutes  | 21055 – Accrued Commission – ICS               |
| Susan Muzik                       | 3:20 - 3:30 | 10 minutes | 22787 – SIBU                                  |
| COM LOB Accruals                  |         |         | 22789 – SMB Marketing                        |
| Iain Crabb                        |         |         | 22788 – Accrued Exp SMB                       |
| SP LOB                            | 3:30 - 3:35 | 5 minutes  | 22802 – Accrued Liability – ATG               |
| CSNSG - Stephen Bradley           | 3:35 - 3:40 | 5 minutes  | 22785 – Accrued Expense – MSSBU               |
| CSG - Kelly Heuschkel             | 3:40 - 3:45 | 5 minutes  | 22777 – Accrued Expense – OIBU                |
| PCIP - Susan Crosby               |         |         | 22819 – Accrued Expenses – CNBU               |
| SPAG - Chet Kwasniak              | 3:45 - 3:50 | 5 minutes  | 22783 – Accr Exp - SPAG                      |
| PAMNSG - Steve Chi                | 3:50 - 3:55 | 5 minutes  | 22771 – Accr Exp – MSABU                     |
| SP LOB - Other - Cindy Hansen     | 3:55 - 4:00 | 5 minutes  | 22791 – Accr Exp – SP Mktg                   |
| SP LOB - Other - Jeff Pace        | 4:00 - 4:10 | 10 minutes | 22885 – Accr Exp – PBU General Accrual       |
| MWG - James Eddy                  | 4:10 - 4:15 | 5 minutes  | 22886 – Exp Exp. – PBU Marketing Accrual     |
|                                   |         |         | 22784 – Accrued Expenses – MWG               |
## Corporate Close Meeting Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Person</th>
<th>Time</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated P&amp;L and B/S Review</td>
<td>Dan Salhus/Mohan Patel</td>
<td>10:00 – 10:20</td>
<td>20</td>
</tr>
<tr>
<td>Actual vs. Budget/Fcast Analysis</td>
<td>Mary Kadomoto</td>
<td>10:20 – 10:30</td>
<td>10</td>
</tr>
<tr>
<td>CA (Customer Advocacy) Professional Services</td>
<td>Jim Fuller/Tony Savastano/Susan Mcdonough/Jodee Kepler-Sinclair</td>
<td>10:30 – 11:00</td>
<td>30</td>
</tr>
<tr>
<td>Break</td>
<td></td>
<td>11:00 – 11:10</td>
<td>10</td>
</tr>
<tr>
<td>Revenue Reserves</td>
<td>Mrinalini Ingram/Michelle Leung/Jim Maccallum</td>
<td>11:10 – 11:50</td>
<td>40</td>
</tr>
<tr>
<td>Lease Accounting</td>
<td>Sue Perkins/Doc Tran</td>
<td>11:50 – 12:10</td>
<td>20</td>
</tr>
<tr>
<td>Break</td>
<td></td>
<td>12:20 – 12:30</td>
<td>10</td>
</tr>
<tr>
<td>Inventory Trend Analysis Gross Margin Bridge</td>
<td>Frank Atter/Dawn Hartman/Carol Kelly</td>
<td>12:30 – 1:00</td>
<td>30</td>
</tr>
<tr>
<td>O/H Spending &amp; Variances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summarize Additional Entries and Action Items</td>
<td>Dennis Powell</td>
<td>1:00 – 1:20</td>
<td>20</td>
</tr>
</tbody>
</table>

### General Comments:
Please plan on attending your portion of the meeting only. Final close entries will be booked by 6:00 pm and the final consolidation will be available by 9:00 pm, WD3.

### Other Attendees
- Larry Carter
- David Rogan

**F.J.A. CONFIDENTIAL TREATMENT REQUESTED BY**
Brobeck, Phleger & Harrison LLP
One Market
Spear Street Tower
San Francisco, CA 94105
(415) 442-0900

C/S 01332
Material/Production Planning
Process Overview
A 3 Step Process

Step 1

Sales Organization provides Manufacturing with a bookings forecast each month for the next 12 month horizon. This forecast is reviewed weekly by each Sales Theatre.

Business Unit (B.U.) Product Marketing Organization provides Manufacturing with a bookings forecast each month for the next 12 month horizon. This forecast is reviewed monthly by B.U. Product Marketing and Manufacturing by each product family.
Material/Production Planning
Process Overview

A 3-Step Process

Step 2

- Manufacturing uses the Sales and B.U. Product Marketing forecasts and combines knowledge of current backlog, lead time targets, technical and supply issues.

- Manufacturing creates a Master Demand Schedule (MDS) to request material in the supply chain and a Build Plan Commitment for revenue forecasting.

- Manufacturing reviews the MDS with B.U. Management to reach agreement on revenue, inventory and lead time commitments.
Material/Production Planning

Process Overview

A 3-Step Process

Step 3

- The monthly Executive Business Review is the culmination of the planning process.
- Attendees include CEO, CFO and VPs of Sales, Business Units and Manufacturing.
- Revenue, inventory and lead time risks and opportunities are reviewed and agreement on adjustments is reached.
- The MDS is approved for communication to the Supply Chain.
Excess Inventory Reserves Calculation

Inventory On Hand
+
Inventory On Order

Total Material Commitments
-
Master Demand Schedule (MDS)
+
Identified Supply Chain Exposures

Amount to be Reserved
Cisco On-Hand and On-Order quantities are compared against 12 months forecasted demand (MDS)

- Items with calculated excess >$75,000
  - ~800 parts, 96% of Cisco on hand and on order reserve balance
  - Individually reviewed by Material Supply Operations and Finance for correctness. Excess is reserved as appropriate after adjustments made for:
    - Engineering Change Order implementation date deferral
    - Bill of Material errors
    - Mitigation efforts

- Items with calculated excess of <$75,000
  - ~2,800 parts, 4% of Cisco on hand and on order reserve balance
  - Reserved at 100%
Inventory Reserves Process Overview
Excess Reserves Procedure (cont.)

- Identified Supply Chain Exposures
  - MDS communicates Cisco requirements to the Supply Chain
  - Contract and Component Manufacturers make purchase commitments based on current industry lead times
  - Material Supply Operations meets with Finance quarterly to review Supply Chain exposures and reserve requirements
  - Historical write-downs have been product specific such as unsuccessful product launches and product end of life
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

---o0o---

In re: Master File No.
CISCO SYSTEMS, INC., C-01-20418
SECURITIES LITIGATION JW(PVT)

----------------------------------

This Document Relates to:

ALL ACTIONS.

----------------------------------

Videotaped deposition of
DAWN P. HARTMAN, taken on behalf of
Plaintiffs, at 100 Pine Street, Suite 2600,
San Francisco, California, commencing at
10:00 a.m., Monday, January 17, 2005, before
Deirdre F. Cram, C.S.R. 9339
"Supporting a significant drop in forecast"? Is that your area?

A. Yes.

Q. I would assume that "Types of Inventory," that's something that you were familiar with, on the next page?

A. Yes.

Q. Let's move on, then, if you would, to the next exhibit, which will be Exhibit 71.

MR. KRISTY: If you don't mind, could we take a three-minute break?

MR. GOLDSTEIN: Sure.

THE VIDEOGRAPHER: The time is 10:43.

We're going off the record.

(A recess was taken.)

THE VIDEOGRAPHER: The time is 10:48. We are back on the record.

(Deposition Exhibit No. 71 was marked for identification.)

BY MR. GOLDSTEIN:

Q. You have before you Exhibit 71. Would you take a look at it? Is that something you're familiar with?

A. Yes.

Q. What is it?
A. This is the presentation that Larry and Dennis made to the SEC.

Q. And this is something that you helped prepare; correct?

A. Yes.

Q. And you prepared it as part of your job; correct?

A. Yes.

Q. Let's walk through this a little bit, if you would. Let's just flip to the page ending in C/S 01322. For the record, the document is entitled "Cisco Systems Q3 FY01 Inventory and Restructuring Charges, July 24th, 2001."

Referring to that page ending in 1322, is this something you helped prepare?

A. No.

Q. Okay. Do you know who did?

A. No.

Q. Moving forward, then, to the page ending in 1327, it's titled "Key Cisco Processes." Is this something you prepared or were involved in preparing?

A. Involved in preparing, yes.

Q. Okay. Fair enough. Let's walk through that, if you would. What was the purpose of this slide, in your understanding?
A. It appears to be a transition slide from
the first part of the presentation to this section.
Q. Okay. Was it used to explain, to the SEC,
the financial close process and the setting of
inventory reserves and material production and
planning, to introduce that next section?
A. Yes.
Q. Let's turn to the next page, if you would.
It lists "Key Close Process Meetings," and uses the
term "Workday minus 4," for example.
What does workday minus 4 mean?
A. Minus 4 would be four workdays prior to
the end of the fiscal month.
Q. And was there a certain -- strike that.
Of these key close process meetings, which
of them were you involved in? Of the seven bullet
points on the Page 1328.
A. This would be for the "Workday minus 3:
Inventory Reserves and Warranty Accrual Review."
Q. Okay. Any others?
A. And the "Workday 3: Corporate Close
Meeting."
Q. The inventory reserves and warranty
accrual review, explain to me what that was, please.
A. This was a meeting where manufacturing
finance people came to review the inventory reserves.

This had two parts to the meeting. We came and
reviewed the inventory reserves with Dennis Powell.

Q. Okay. When you say "we," who are you
referring to?

A. This would be Frank Atter, myself and,
potentially, one of my direct reports.

Q. And the purpose of this meeting was to
review the inventory reserve for the previous, the
current month? The forthcoming month?

A. As this is workday minus 3, it would be
the inventory reserves for the current month that we
were in.

Q. Okay, that was set to close in three days?

A. Correct.

Q. At that meeting, would you discuss the
reserves for the next month?

A. So a reserve goes with a balance sheet.
So that is a period in time. So these would be
reserves projected for all requirements for the
future period, based on what we knew at that time.

In terms of forecasting the next month's or quarter's
reserves, no.

Q. Let me say, for example, and let's just
use -- and this is very elementary, and I apologize,
but, for example, let's say that we're showing an
inventory balance of one billion, say, for a certain
month, and the reserve is 10 percent of that, let's
say.

At that meeting, would you then discuss -- well, at what stage in time would you then discuss
what percentage would be reserved for the next month?

MR. KRISTY: Object to the form. You can
answer.

BY MR. GOLDSTEIN:

Q. If you understand.

A. Well, reserves aren't calculated based on
what percent of inventory there are. That's just a
statistic that's calculated after --

Q. I understand.

A. -- you've built your reserves up from the
bottom.

Q. Well, let me be a little more artful,
then, in terms of at what point do you determine
whether or not to increase or decrease a reserve for the next fiscal month?

A. Well, when we actually have the next MDS
run that says this is is the most up-to-date
information we have, and what are the next reserve
requirements?
Q. Okay, and when does that process occur?
A. That happens pretty much every week, because the MDS is loaded every week.

Q. So every week, what happens each week in terms of assessing whether or not the reserve for the next month is adequate?
A. A new MDS is loaded on a Friday. On the following Monday, we can see the list of excess and obsolete parts, and see if we have a new set of issues to mitigate.

Q. Okay, and that's done on a weekly basis?
A. It can be.

Q. Okay. We're back discussing about what was discussed at the inventory reserves meeting. Was there documents that were generated specifically out of that meeting, that you're aware of?
A. Documents generated for that meeting, yes.

Q. Okay. What were the documents generated for the workday minus 3 inventory reserves and warranty accrual review referred on Page 1328 of Exhibit 71?
A. There would be an inventory reserves package.

Q. Okay. Who prepared that, if you know?
A. It would be the inventory reserve senior
Case 5:01-cv-20418-JW   Document 485   Filed 03/13/2006   Page 30 of 39

1 analyst/manager in my organization.

2 Q. Okay. You don't remember that person's

3 name?

4 A. It changes.

5 Q. Okay.

6 A. It depends on which point in time.

7 Q. How about when you left? Do you remember

8 who it was?

9 A. Anne Grendahl.

10 Q. Okay, and that inventory reserve package

11 would be circulated prior to the workday minus 3

12 meeting; is that correct?

13 A. Can you tell me what "circulated" means?

14 Q. Was it distributed at the meeting?

15 A. Yes.

16 Q. Okay. Moving forward to workday number 3,

17 the corporate close meeting, we've discussed a little

18 bit about your involvement there. In some of the

19 documents I'm going to show you we see what's called

20 a "consolidated inventory trend analysis."

21 Is that something that you were

22 responsible for preparing, or your team?

23 A. My team was responsible for preparing

24 that; yes.

25 Q. Describe for me the process how that would
be prepared for the corporate close.

A. It was an historical balance sheet listing. Pieces that were not inventory, we would receive from the corporate consolidation team, and the sections that were inventory-related, we keyed them into the spreadsheets.

Q. And what was the purpose of that document?

A. To look at a trend of raw, WIP, finished goods and anything else that might be affecting the balance sheet.

Q. And is that something -- would you utilize that document in your presentation at the close meetings?

A. Yes.

Q. Let's keep moving through the current document, if you would. Referring to Page 1332 -- I'm sorry. I'm referring to what looks like the same number. No, I'm not. 1332, and it shows "Corporate Close Meeting Agenda."

Was this a standard agenda that was just shown to the SEC?

A. Yes.

Q. Okay. It wasn't for a particular meeting; correct?

A. No.
Q. Okay. Down here, "Inventory Trend Analysis," Frank Atter and Dawn Hartman, 30 minutes; correct?
A. No. It would be for "Inventory Trend Analysis," "Gross Margin Bridge" and "Overhead Spending & Variances"; all three.
Q. All three for the 30 minutes?
A. Correct.
Q. And yourself or Mr. Atter would typically do the inventory trend analysis presentation?
A. Yes.
Q. Okay. Let's move on to the next page, which talks about the planning process overview. Is this something that you helped prepare? This slide?
A. Yes.
Q. Let's walk, if you would, a little bit through it. If you would turn to the next page, it talks about manufacturing uses the sales and business units product marketing forecasts and combines the knowledge of current backlog, lead time targets, technical and supply issues. Then manufacturing
creates a Master Demand Schedule to request materials
in the supply chain and a build plan commitment for
revenue forecasting.

Can you explain to me what the build plan
commitment means?

A. A build plan commitment is a commitment or
confirmation of the quantity of units that can
actually be completed and shipped.

Q. The next page talks about the
"Material/Production Planning Process Overview." It talks about an executive business review that takes
place each month.

Is that something you would attend?

A. No.

Q. Was that something you were aware of whether Mr. Atter attended or not?

A. You know, I don't recall.

Q. This is not Larry's monthly meeting that
you were referring to; correct?

A. No.

Q. Okay. That's a separate meeting within
the finance organization, as opposed to this
executive business review that took place each month?

A. That's correct.

Q. Moving on, then, to 1336, we have here an
explanation of the excess inventory reserves

calculation. Can you walk me through this, please,
in terms of what this demonstrates, and how the

excess inventory reserve is calculated or was

calculated at this time?

A. Yes. You have a set of parts that you

have physically on hand in a warehouse, on the

production floor. You have, in the system, a list of

inventory that is on order to your suppliers. That

is all the material commitments as outlined right

here (indicating).

We then have the Master Demand Schedule

that we've previously defined. That's all that

you're going to use. If you would just do a separate

subtotal there, that would be potentially excess or

obsolete inventory, and you add to that any

additional exposures that could be in your supply

chain. Those combine to make your entire reserve

requirement when it comes to excess inventory.

Q. The "Identified Supply Chain Exposures,"

when in the process would that be done?

A. The purchasing agents and managers in

manufacturing are in discussions with the supply

chain and can highlight any specific issues at any

time, and flag that to their finance person. So it's
not a wait until the end of the month. Anytime, that can happen.

Q. Okay. When would those identified supply chain exposures be discussed within your organization in order to determine whether or not the amount to be reserved should be adjusted or not?

A. Very soon. I mean, almost real time.

Q. Okay. So communication from one of the manufacturing persons that there's an identified supply chain exposure. At that point, there's discussion within your unit as to whether or not the reserve needs to be adjusted based on that exposure.

Is that fair?

A. Correct.

Q. Okay. Moving on to the next slide, if you would -- well, let me back up again here. When we're talking here, again, about the Master Demand Schedule, and it being based on the forecasts coming from the sales units and the business units, once it's been approved and accepted and loaded, that is what you would base this calculation on; correct?

A. That's correct.

Q. Okay. There was no going back to the initial sales and business unit individual forecasts themselves and basing the reserve on that?
A. No.

Q. Okay. The Master Demand Schedule comes down. From that, the reserve is then based?

A. Correct.

Q. Moving on to the next page, "Inventory Reserves Process Overview Excess Reserves Procedure." Explain to me what this slide shows.

A. This slide is a tactical execution explanation of the summary slide that comes before it.

Q. Okay.

A. In that, as mentioned, you have all of your inventory that is on hand, physically, you have. All the inventory that you have on order in the system is summed together by every single part that Cisco has and, as mentioned on the summary slide, is compared against the Master Demand Schedule.

Q. Okay. Let's walk through it, then, if you would.

A. Uh-huh.

Q. It talks about, here, underneath the first bullet point, that items with calculated excess of greater than 75,000.

Can you explain to me what the process was with respect to items with calculated excess of over
75,000, as it related to setting the excess reserve?

A. Yes. As identified here, this comprised about 800 parts, individual line items. This was, as we see here, 96 percent of our on-hand and on-order reserve balance. So this was, you know, better than 11:06:40 the 80/20 rule.

Q. Okay.

A. We had the team that would look at this list by the business unit team. So this would be the shaped-around products. The finance person, the 11:06:56 planner, the purchasing agent would assess what could be mitigated from this initial list of excess inventory reserve obligations.

Q. Okay. And do you have some understanding as to how often this individual review took place by 11:07:15 the material supply operations and finance persons?

A. The report ran at the beginning of the month, and can be run every Monday to see if there were any major variations.

Q. When you say "major variations," what do 11:07:36 you mean?

A. A new 801st part would pop up for something bigger than $75,000. So that would be added to the list to go work on.

Q. Okay. Then, underneath, the next item 11:08:05
says, "Items with calculated excess of less than
$75,000" -- 2,800 parts, four percent of Cisco on
hand and on order reserve balance that was reserved
at 100 percent.

Is that accurate?  11:08:17

A. Yes, it is.

Q. What was your understanding as to why that
was reserved at 100 percent?

A. We did not have a specific team working to
mitigate any of those almost 3,000 parts. With no
active mitigation, the most conservative assumption
would be that we would, indeed, have excess inventory
that we would have to write off or dispose.

Q. And the last slide talks about the
identified supply chain exposures. Is this something
that you were involved in drafting?

A. Yes.

Q. And the portions of this document that you
were responsible for drafting, you believe them to be
true at this time you wrote them; correct?

A. Yes, I do.

Q. We'll move on from this. Moving on to
Exhibit 72.

(Deposition Exhibit No. 72 was marked
for identification.)
I, DEIRDRE F. CRAM, CSR NO. 9339, a Certified shorthand Reporter of the State of California, do hereby certify:

That the foregoing proceedings were taken before me at the time and place herein set forth; that any witnesses in the foregoing proceedings, prior to testifying, stated that they would tell the truth under penalty of perjury; that a verbatim record of the proceedings was made by me using machine shorthand which was transcribed under my direction; further, that the foregoing is an accurate transcription thereof.

I further certify that I am neither financially interested in the outcome of the action, nor a relative or employee of any attorney or of any parties.

IN WITNESS WHEREOF, I have this date subscribed my name.

Dated: January 28, 2005

DEIRDRE F. CRAM, C.S.R. 9339
Exhibit NN
In re: CISCO SYSTEMS, INC., SECURITIES LITIGATION

This Document relates to: ALL ACTIONS.

CONFIDENTIAL TESTIMONY
PURSUANT TO PROTECTIVE ORDER
VIDEOTAPE DEPOSITION OF REBECCA JACOBY
FRIDAY, JUNE 24, 2005
from the MDS is rescheduled to Q3, right? 

Now, is there some assessment as to whether that there is still a need for those materials that have been rescheduled to Q3?

A It depends on the product line. So the individual planners that are individually responsible for the individual products would assess the variables associated with that particular product in space and decide -- and this is an ongoing -- ongoing exercise to reassess and replan and determine exactly what changes they make to the plan accordingly in their particular product line.

Q Was that done on an aggregate level?

A We would look at that as -- we would look at the total roll-up as an aggregate level, and then look at the specifics in terms of whether we thought there were teams we needed to talk to, you know, with more pressure or less pressure, whatever, and get more information or less information to help them make sure they were effectively planning.

Q Okay.

And the portion that was being replanned, what did you look at to determine whether or not that amount there was still a demand for?

A Well, we look at the, you know, what the
Q. Well, what impacts, if at all, do you believe that the issues discussed in Mr. Darendering's E-mail would have had on Cisco's business as of this date?  

MR. BETMAN: Object to the form.  

THE WITNESS: Well, so I always believed that in manufacturing you need to, you know, execute accordingly, or you could have an impact on the business. Did I believe there was a more than sort of normal, you know, manufacturing tension sort of impact? No, I did not believe that at this time.  

BY MR. GOLDSTEIN:

Q. Did you ever tell Mr. Darenderinger that you disagreed with him?  

A. Probably not.  

Q. In the last sentence Mr. Darenderinger says: "I am very worried looking at all the signs that relate back to all the cycles I have been fortunate enough to be a part of." Did the amount of material on order as of October 5th cause you any worry other than your normal worry about your job?  

MR. BETMAN: Objection; asked and answered.
STATE OF CALIFORNIA ) ss.
COUNTY OF SAN FRANCISCO )

I, KELLI COMBS, CSR NO. 7705, a Certified
Shorthand Reporter of the State of California, do hereby
certify:

That the foregoing proceedings were taken before
me at the time and place herein set forth; that any
witnesses in the foregoing proceedings, prior to
testifying, were placed under oath; that a verbatim
record of the proceedings was made by me using machine
shorthand which was thereafter transcribed under my
direction; further, that the foregoing is an accurate
transcription thereof.

I further certify that I am neither financially
interested in the action nor a relative or employee of
any attorney or any of the parties.

IN WITNESS WHEREOF, I have this date subscribed
my name.

Dated: July 8th, 2005

KELLI COMBS, CSR NO. 7705
Exhibit OO
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

---oo0oo---

In re: Cisco Systems, Inc., Securities Litigation

Master File No. C-01-20418

This document Relates to: All Actions.

VIDEOTAPEDEPOSITION OF MRINALINI INGRAM

WEDNESDAY, SEPTEMBER 14, 2005
future product. In Cisco's case, we generally only
had upgrades, to my recollection, where you can
improve a product and give it additional features and
give it additional qualities that a customer -- that
we are hoping customers are going to want. And if
you sell that or you tell a customer that this is
coming, and we will provide that to you when it is
available, we have to look at that for revenue
recognition purposes and make sure that we are
deferring the appropriate amount.

Q. Were future products upgrades or were they
products which were not yet in existence?

A. In Cisco's case, to the best of my
recollection, we only really had upgrades. We didn't
have as many future products, something completely
new. So in upgrades it could be an existing
technology that we then put in additional features
for.

Q. At the time that you joined Cisco in March
of 2000 did -- what was Cisco's policy for deferring
revenue for future products?

A. Well, at the time --

MR. KRISTY: I will object to the form.

You can answer.

THE WITNESS: At the time I joined Cisco, I
believe the policy has always been the same, and it's
to conform according to the revenue recognition
rules, 97-2 primarily, and you defer based on the
fair market value, et cetera.

I mean, I don't recall anything specific. 10:22:40AM
I'd have to read the policy, which is right here, and
I could read it out loud, if you'd like.

BY MS. WEAVER:

Q. How did Cisco assess the fair market value?
A. I'm sorry. I am not quite sure I am 10:22:54AM
understanding how to answer that.

Q. How did Cisco assess the fair market value
of the elements of a future product that it was going
to defer?

MR. KRISTY: Object to the form. Vague as 10:23:06AM
to time.

THE WITNESS: I'm not exactly sure. We did
it according to the policy.

BY MS. WEAVER:

Q. Explain to me how Cisco performed that 10:23:13AM
analysis.
A. Maybe you can give me something more
specific.

Q. What don't you understand?
A. I'm sorry. I am not understanding how to 10:23:19AM
STATE OF CALIFORNIA  )
 ) ss.
COUNTY OF SAN FRANCISCO)

I hereby certify that the witness in the foregoing deposition was by me duly sworn to testify to the truth, the whole truth and nothing but the truth, in the within-entitled cause; that said deposition was taken at the time and place herein named; that the deposition is a true record of the witness's testimony as reported by me, a duly Certified Shorthand Reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

I further certify that I am not interested in the outcome of the said action, nor connected with, nor related to, any of the parties in said action, nor to their respective counsel.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my signature this 29th day of September, 2005.


DEBORAH LEE LUBIN, CSR No. 3234, RPR
Exhibit PP
Client Name: Cisco Systems, Inc.  
Period End: 07/29/2000

Title: Budget to Actual Analysis
Reference: 950 - 4
Type: Attachment

Area: 950 - Engagement management
File Section: Planning and engagement management

Details:

Note: Double-click on the icon to launch the Budget to Actual analysis:

Actual Time vs. Bud

Document Status: Reviewed
Completed By:
Reviewed By:
Review Categorization:

Maintenance

Created By: Scott Pinkerton
Last Modified By: Scott Pinkerton
Editors: Scott Pinkerton; Jaime Wayland

PWC 048234

CONFIDENTIAL
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140
321
44,965

Exp. Senior Associate - SP
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417.50
295
144,322
246
259
16,136
156
259
104,320
106
259
37,779

Exp. Senior Associate - NJ
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254
15,878
234.50
354
15,616
264
234
16,056
97
234
15,056

Exp. Senior Associate - JS
75
75
11,355
75.50
75
9,915
75
75
11,355

Serv. Associate - SM
71
116
64,738
73
116
10,160
62
116
13,561
62
116
13,561

Serv. Associate - Misc.
73
116
64,738
73
116
10,160
62
116
13,561
62
116
13,561

Serv. Associate - NJ
140
274
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186.40
274
34,404
274
274
27,167
274
274
27,167

Serv. Associate - JS
75
140
19,333
75
140
19,333
75
140
19,333

Serv. Associate - Misc.
73
116
64,738
73
116
10,160
62
116
13,561
62
116
13,561

Serv. Associate - NW
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116
64,738
73
116
10,160
62
116
13,561
62
116
13,561

Serv. Associate - MW
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64,738
71
116
10,160
62
116
13,561
62
116
13,561

Serv. Associate - NW
73
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64,738
73
116
10,160
62
116
13,561
62
116
13,561

Total ASAG
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81,406
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497,833
615
143,073

Tax Partner
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35
580
20,100
35
580
20,100

Tax Senior Manager
46
485
22,320
46
485
22,320
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485
22,320

Tax Manager
46
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22,320
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485
22,320
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485
22,320

Total Tax
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100
49,500
-100
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CGIM Partner
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542
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24
542
12,098

CGIM Senior Manager
24
542
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24
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542
12,098

CGIM Manager
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73
116
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64,738
73
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116
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73
116
10,160

Total CGIM
222
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336
336
336
336
336
336
336
336

Total DRS
642
348,794
336
336
336
336
336
336
336
336

CGIM Partner
24
542
12,098
24
542
12,098
24
542
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CGIM Senior Manager
24
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24
542
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542
12,098

CGIM Manager
73
116
64,738
73
116
10,160
73
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64,738
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73
116
64,738
73
116
10,160

Total CGIM
222
348,794
336
336
336
336
336
336
336
336

Total DRS
642
348,794
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336
336
336
336
336
336
336

Quarterly Review
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89,445
275
89,445
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88,445

Overall
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3,841,800
810,370
810,370
3,841,800
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Assignment count with DRS
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693

Blocked
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Utilized
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193

PWC 048236
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Exhibit QQ
CONFIDENTIAL

Client Name: Cisco Systems, Inc.
Period End: 07/29/2000

Working Paper

Title: Excess and Obsolete reserve
Reference: [3400 - 42
Type: Created in Notes

Area: 3400 - Inventory
File Section: Assets

Details:
The explanation for the Excess and Obsolete was updated on discussion with Laura Rivera and Ryan Hom (manufacturing finance):

Excess & Obsolete Reserve

This reserve is estimated from the excess inventory report. The excess inventory report shows all items on hand and on order which are above the one year projected demand (based on MRP). The current policy is that the client reserves for items on the excess inventory report over $100,000 (Silvercreek examines items >$20,000) after evaluating them individually (see reserve policy below).

Additionally, specific (E&O) reserves have been added for inventory that will be replaced with new products, and rendered these products obsolete or for items that are useless after engineering personnel have evaluated them (note the client is estimating that the inventory will be finished within 60 days or will be moved to FSO).

Reserve Policy:

1) Identify inventory items on hand and on order which are above the one year projected demand based on MRP calculations.

2) Buyers will review the MRP and inventory on hand and on order for all items exceeding $100,000. The buyer will provide Cost Accounting and the V.P. of Materials with the following:
   - justification as to whether or not they can sell the inventory
   - indications of inaccuracies in the MRP forecast
   - any other information which impacts on the MRP assessment

3) The appropriate Directors and Managers (within the Materials Organization), Scheduling Department (evaluates demand forecasting) and Manufacturing Finance will make the final decision as to which items are sellable (i.e., not excess or obsolete).

4) Items identified as 'sellable' are not included in the E&O reserve calculation.

5) Items that have excess inventory on hand of <$100,000 after accounting for one year of MRP, are provided for at 50%

6) Reserve calculations and reserve balances are reviewed with the OPS VP Controller and the VP of commodities twice a quarter.
The current E&O reserve policy has been amended on prior year.

For FY 99 all inventory items with excess on hand over one year of MRP >$50,000 were examined on a line by line basis for the requirement for specific reserves (points 1 to 4 above). The current policy is to examine all items >$100,000 for the requirement to make a specific reserve and all items <$100,000 are subject to a blanket reserve of 50%.

On discussion with Dawn Hartman, the change in policy is due to:

- increase in inventory levels and throughput
- on examination of items >$50,000 in previous years, it was often the case that many (which were between $50,000 and $100,000) were not reserved against as buyers/Cisco had reasonable grounds for usage at levels in excess of the MRP calculation. The process became time consuming without improving the accuracy of the specific reserve

PwC agrees the adoption of the new methodology to be reasonable based on the argument outlined above, as there appears to be no fundamental impact on the prudence of the reserve. Issue raised to outline the new policy.

No further work performed.

See reserve analysis at WP 3400-45 to 3400-48 for further reserve analysis by location

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| Review Categorization:   |   |

Maintenance

| Created By: | Andrew Gidney |
|             |               |
| Last Modified By: | Andrew Gidney |
| Editors:     | Andrew Gidney |
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**Completed By:**
- Dan George

**Maintenance**

- **Created By:**
  - Scott Pinkerton
- **Last Modified By:**
  - Dan George
- **Editors:**
  - Scott Pinkerton; Dan George
Exhibit SS
Title: Agree comparative summary totals to the general ledger

Area: 3400 - Inventory
File Section: Assets
Industry Name: US General July 1998

Audit Objectives: Accuracy
Strategy Option: None, Some, High

Description:
Obtain a comparative summary of raw materials inventory account balances and:

a) test the mathematical accuracy of the summary;
b) trace account balances to the general ledger and the previous year's working papers; and
c) review the summary for any possible omissions

Comments:
Please refer to:
WP 3400-2 Net Inventory Consolidation
WP 3400-3 Gross inventory/reserves

a) Done - no exceptions noted
b) Done - no exceptions noted
c) Done - no exceptions noted

Linked Strategy Factors:

Document Status: Reviewed

Completed By: Andrew Gidney

Reviewed By:

Review Categorization:

Maintenance

PWC 017453
Exhibit TT
CONFIDENTIAL

Client Name: Cisco Systems, Inc.
Period End: 07/29/2000

Title: Consider changes in internal control and inherent risks since the early testing date

Area: 3400 - Inventory
File Section: Assets
Industry Name: US General July 1998

Audit Objectives: Completeness, Accuracy, Existence/Occurrence
Strategy Option: Some, High

Description:
Determine whether there have been any significant changes in internal control and inherent risks since the early test date, consider the results of tests of controls in the intervening period, and modify substantive testing procedures as appropriate.

Comments:

Linked Strategy Factors:
M - Early substantive testing results in audit risk during the intervening period

Document Status: Reviewed

Completed By:
Dan George

Reviewed By:
James W. Sullivan

Review Categorization:

Maintenance

Created By:
Scott Pinkerton

Last Modified By:
James W. Sullivan

Editors:
Scott Pinkerton; Dan George; James W. Sullivan

PWC 017498
Exhibit UU
### Inventory Analytics

#### Final

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<td>989,843</td>
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<td>40%</td>
<td>682,058</td>
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<td>2,057,465</td>
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(A) Cisco calculation using projections for forthcoming product cost and period ending net inventory
(B) C&L's calculation using quarter cost of goods sold and average quarterly net inventory
(C) C&L's calculation using quarter cost of goods sold and average quarterly gross inventory
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Client Name: Cisco Systems, Inc.
Period End: 07/29/2001

Title: Inventory - Reserve meeting
Reference: 7800 - 280
Type: Created In Notes

Area: 7800 - 3rd Quarter Interim Review - recurring reviews
File Section: Interim Reviews

Details:
The following points for the inventory quarterly reserve meeting are of note:

Time
-11am
- Wednesday April 24, 2001

Key attendees

PwC
Steve Meisel
Michaeeal Jerome
Tony Fueil
Dan George
Jean-Francois Boivin

Cisco
Dawn Hartman (Manufacturing director)
Denis Powel (Worldwide controller)

Key issues

Inventory reserves
Consistent with last quarter, reserves take into account the forecasted demand for the next 12 months.
No change in the methodology for calculating the standards revaluation reserve.
No change in the methodology for calculating the Excess and Scrap reserve.
The increase in the inventory reserves is due to a falldown of the forecasted demand in MDS in connection with the slowdown of economy in the first quarter of 2001.
The contingency reserve is to cover the estimated fluctuations in inventories demand as the MDS system has not been updated through the end of April.

Acquisitions
No new acquisition during Q3 01

Other Reserves

PWC 006849
see reserve analysis in 7700-225

Warranty Reserve

No significant comments arising

Based on the manufacturing meeting, PwC will meet with manufacturing management to review details surrounding the significant growth in inventory, inventory related reserves and purchase commitments.

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Maintenance

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