Cisco Systems Inc.: Long Stock Report

Rutgers Business School
Newark and New Brunswick

Analyst: Cliff Roberts
Analysis prepared in February of 2011 when the stock traded at $17.85

Cisco Systems Inc.

NASDAQ Ticker: CSCO
Recommendation: BUY

Target Price: $22.27

Company Fundamentals	
Price to Book	2.25
Forward P/E	10.5
EV/EBITDA	7.07
Debt/Equity	33%
Quarterly Revenue Growth – (YoY)	6%
Profit margins	62%
Market Information	
Market Cap	103B
Shares Outstanding	5.53B
Institutional ownership	73%

Highlights:

Valuation at historical low:

Cisco is currently trading at 7.07 EV/EBITDA compared to an average of 16 for companies in this industry. The Average 10 year P/E for Cisco is over 20 times and today it sells for 10 times earnings – a bargain not seen for a blue chip of this quality. Guidance at the last analyst conference call was 9 – 11% growth year over year in Revenue.

Pent up IT Enterprise Demand:

Demand for bandwidth has never been higher. The combination of Internet throughput added to wireless network demand and the different devices people get their entertainment has created unprecedented opportunities. Companies that can create equipment that can deliver data faster and scale up with the demand will be seen as the solution to an ongoing problem.

Refocused Strategy:

Cisco is divesting its consumer business and is now refocused and reinvigorated to keep their lead in Network Technology equipment manufacturing.

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Recent Stock Price and Volume chart:

Background:

Cisco Systems is the leader in the field of Internet Protocol (IP) Switches, Routers and Network technologies for all levels of communications. The equipment they produce is used in every aspect of the Internet industry and IT communications: Wire-line, Wireless, Home Networking products, adapters, gateways, data, video transmission, and security. They are essentially a one-stop shop for any IT manager or company. The ubiquitous nature of their products makes them the first choice for many industries.

Investment Summary:

Strategically positioned for growth -

Cisco has a long-term durable and sustainable competitive advantage due to being a market leader in IP Network Switches and Routers, and protecting that lead with the latest technology. IP Switches are at the core of all 'cloud' type networks – both interconnections and intraconnections. No less than 85% of all Fortune 500 companies are using Cisco Unified solutions. In addition, Cisco is using its competitive advantage to move into heavy video data usage for Internet TV delivery making it easier to bypass the incumbent Cable TV companies in a geographic area. With a vision of the future networking needs Cisco has become the One-Stop shop. It is by the leadership team and the innovation of it's products that Cisco continues to push the industry toward the future of the enterprise: Security, Firewall implementation, Optical transmission, Hybrid Equipment and large back-haul data transmission. With recent management changes and a divestment of the consumer business line, we feel Cisco is now focused on what makes them special and how to command those markets.

On the Data Center side of the business which uses virtually all of Cisco's products – The changes in the corporate data center in the next five years will be something not seen in the past 20 years. Virtualization, and cloud driven technology will not only change the way businesses do their jobs but how the end consumers use and find software. This significant inflection point in this business arena has not been lost on Cisco, and they have the products and expertise to move people and businesses into the next stage of the computing architecture.

Overall Cisco is a leader in connectivity devices. The advantage for Cisco in this space is simple - it does not matter who wins the 'war' for the consumer eyes in the business of media and content providers – Cisco will have the equipment for all the players. If Wireless, Cable TV, or Incumbent carriers win, Cisco has the products and the lead in the distribution channel and the pricing power to stay competitive and be profitable. They integrate the complete Network Data Center with unifying Networking, Computing, Storage and Software in a single viewpoint.

For classic Voice type services, Cisco is perfectly aligned with the transition away from traditional telephone service and to Voice over Internet Protocol (VoIP) and IP based communications. For Wireless - Growth in Wireless use and data services requiring greater bandwidth demand will show itself in increased sales for Cisco over the next 3 to 5 years. While it could not be confirmed that Cisco sells directly to Amazon.com, the services Amazon offers with one of the best retail IT networks in the world – all evidence points to Cisco being at the heart of the Amazon network. This strategic area is key to not only showing Cisco's ability to other customers but it puts Cisco at the forefront of the most demanding retail online networks today. The recent news about some of Amazon's network problems is sparse. From what we have gathered up to now, it appears to be a storage issue and not a network or interconnectivity issue. At the time of this report it appears to point more towards issues with EMC storage devices than any networking hardware.

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Solid Financials and poised for the economic recovery –

Cisco will pay it's first ever dividend on April 30th which represents approximately a 1.4% yield at the current price. Cisco has accumulated $40B in cash and while normally using the cash to buy back shares or acquire companies, they are improving shareholder value by paying out some of it's cash horde to its owners. We expect the dividends to continue from Cisco's ability to take advantage of any further recovery from the current recession. They also are lobbying the Washington politicians hard for a tax holiday to repatriate a large amount of cash generated from outside the USA. This accumulated cash represents approximately $5.00 per share in value should it be allowed to return to US shores.

Overall we prefer to look long term – 5 to 10 years into the future, while our forecast reaches out 3 years. With this long-term goal, Cisco has the ability to generate huge amounts of cash, with very little debt compared to its competition and a substantial share of the market in its sector along with a solid management.

Barriers to Entry -

Generally speaking the technology business is a knowledge business so in the general term the industry has a low barrier to entry. Anyone with enough engineers can start a communications equipment company. However, in the specific technology that Cisco operates in the barriers to entry are high. Cisco enjoys a high degree of confidence with its customer base and the customers know that the products and services will integrate well, be high quality and will immediately contribute to a return on investment. The sales channels, and customer relationships are difficult to reproduce for a start up company, and it takes years to develop the trust of the IT managers with the largest budgets. The service providers and IT managers of the enterprise will not take a chance with a start up unless it offers something no one else does and it fits into the plan for the IT back office. There are many players in the offerings for telecommunications companies but Cisco has a large portion of the enterprise locked up.

Valuation at historical Low –

Cisco declared its very first dividend on Friday March 18, 2011. While the dividend to a good sign for shareholders, it is our hope that the payout will be more generous in the months and years ahead. This cash dividend only builds upon the value of Cisco. While most technology companies do not pay a dividend, Cisco has decided to reward its shareholders with some of its cash horde. The current valuation is simply the markets opinion that the businesses best days are behind it or the business is unsustainable. We could not disagree more. With Cisco at 10 time earnings this is a very opportunistic time to buy this stock. The average price/earnings multiple for Cisco is over 20 times after the Y2K period.

Recommendation -

With Cisco at historical lows in both forward P/E and EV/EBITDA the price is very attractive. The Capital Expenditures expected out of the US and non-US industries in the years to come will be directly reflective of the recovery from the recession. The Sales and Profits for Cisco will be rewarded as the economy recovers. With both the current price and valuation added to the long-term economic view – Cisco is a BUY at its current price.

Industry Overview:

Cisco operates in two basic customer areas: Telecommunications and Private companies and individuals with networks to build, improve and maintain, also known as Enterprise customers. The profit centers for the next 5 years will be for Private companies and individuals as data demand increases and more software and systems transition to the network 'cloud' as opposed to use and storage on local PC's.

The communications and telecommunications equipment market generated 12.5 Billion in revenue in 2010. The IP based network hardware business is extremely competitive, and only now fully recovering from the 2001 technology bubble burst and the latest recession. Cisco's direct manufacturing competition is from Alcatel-Lucent (Ticker: ALU) and Juniper Networks (Ticker: JNPR). HP (Ticker: HPQ) is a competitor in the software services business.

Sales in Network and Telecommunications Equipment focused on Network Switches (Network Side) comprising 34% of the sales followed by General 'on premise' (Access side) equipment at 26%. The Services area has shown great promise at 20% of sales, and Routers at 17% of sales.

The industry market share in 2010 was:

Company	Market Share (Percentage)
Cisco	35.2%
Alcatel Lucent	24.8%
Hewlett-Packard	5.2%

Source: IBIS World

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Cisco defines the principle competitive factors in their market as:

- The ability to provide a broad range of networking and communications products and services
- Product performance
- Price
- The ability to introduce new products, including products with price-performance advantages
- The ability to reduce production costs
- The ability to provide value-added features such as security, reliability, and investment protection
- Conformance to standards
- Market presence
- The ability to provide financing
- Disruptive technology shifts and new business models

Our research has shown that offshore competition presently is only competitive on price. This is not a principle factor in the decision for the majority of IT managers. They want value but they really want performance and a single vendor for the solution along with ease of installation. Cisco excels in all of these areas.

For comparison of companies and their profitability the following table shows a relative comparison:

Direct Competitor Comparison					
	CSCO	ALU	HPQ	JNPR	Industry
Market Cap:	95.52B	12.10B	92.03B	21.88B	N/A
Employees:	70,700	N/A	324,600	8,772	N/A
Qtrly Rev Growth (yoy):	6.00%	22.60%	3.60%	26.40%	0.00%
Revenue (ttm):	42.36B	22.38B	127.16B	4.09B	N/A
Gross Margin (ttm):	62.56%	34.83%	24.14%	66.98%	0.00%
EBITDA (ttm):	11.05B	588.62M	18.25B	940.02M	N/A
Operating Margin (ttm):	21.01%	0.01%	10.49%	19.17%	0.00%
Net Income (ttm):	7.58B	-450.56M	9.12B	618.40M	N/A
EPS (ttm):	1.32	-0.21	3.92	1.15	N/A
P/E (ttm):	13.07	N/A	10.85	35.57	N/A
PEG (5 yr expected):	1.04	4.10	0.84	1.38	N/A
P/S (ttm):	2.27	0.54	0.73	5.33	N/A

Direct Competitor Comparison table: Yahoo Finance

Revenue by product area	
Switches	31%
New Product	30%
Services	21%
Routers	16%
Other Product	2%

Cisco defines New Product as: Data Center, Collaboration, Security, Wireless and Video connected home.

Cisco Business Overview:

IP Switches:

Switching technologies are used within buildings, campuses, branch offices and data centers. Switches are used for small Local Area Networks (LANs), across cities with Metropolitan Area Networks (MANs), and longer distances with Wide Area Networks (WANs). The underlying interconnections supported span the full gamut of possibilities: Packet over Sonet, Ethernet, Fiber channel over Ethernet, and Labeled switching. They offer scaling and modular design – offering businesses and Universities the ability to have a switch take on many different responsibilities depending on seasonality or business cycles. Year over year Switching revenues declined 7% due to much anticipated upcoming new product from Cisco.

Routers:

Cisco produces an entire family of Routers for every business and industry size. Everything from the small business 'all in one' routers, to Service provider 'edge' routers for the ingress and egress of a 'cloud' network. Their mobility offering covers backhaul cell based connections for Radio Access Networks (RAN). Key products in this area are the Cisco 1800, 2800 and 3800 series. Aggregation (unified solutions) is in the ASR 1000, 5000 and 9000 routers. In addition the newly designed CRS-3 router was created for less power consumption and 3 times the capacity of the earlier CRS routers. This family of routers specifically address core service video providers for Internet video and applications.

Routing grew 4% year over year for Cisco

New Product:

TelePresence system:

Cisco is going after the high bandwidth video delivery business, with content delivery as well as collaboration tools for businesses. This addressed the ever-growing bandwidth needs and full implementation of the 'in place' fiber networks. When IT business Capital was used in the 1999-2001 time frame it was during the technology bubble. It is only now this infrastructure investment is being utilized to its full potential, and with it the interconnecting products that Cisco offers. Recently American Express held a board meeting and ten of the thirteen members used the Cisco TelePresence system to attend the meeting. This product currently generates $1.4 Billion of Revenue annually and has grown 40% in the last year. 85% of Fortune 100 companies and 75% of Fortune 500 companies have deployed this technology.

Consumer products:

The consumer product area is a low margin highly competitive area. Cisco has revamped this product line with the 'Valet' line of products. The long-term plan is to meet the needs of highly networked homes and family needs. These technologies support the high throughput 802.11n. In addition the successful Flip Camera was introduced in the USA and Canada.

Cisco has made the correct strategic decision to close down this business since the margins were low and there were many other choices for the consumer in this space. On April 12, 2011 Cisco announced it was closing down its Flip-Camera line and looking at reducing its ownership in the low margin consumer products business. We feel this is a good step forward for Cisco and we look forward to more strategic adjustments after John Chambers letter to employees at the end of March.

Unified Computing Systems:

This is the forefront of Cisco's 'cloud' computing strategy. It brings together pre-integrated compute, storage and networking in one package. This technology allows a modular design of storage systems from a list of vendors allowing an end customer to literally put their entire enterprise of applications out on the network. This creates an interlacing of Video, Voice, Messaging, and collaboration tools. This type of environment is ideal for an integrated Health Care Network, which could bring about the advances in medical care only dreamed about a few years ago. This area saw a large 700% growth in revenue making up $650 Million.

Software and Services:

The technical support and software area is a section of the business with tremendous potential for very strong profit margins. The hourly billing rate for either a maintenance contract or a Time and Materials offering is almost 90% profit margins. The analogy to this is the switches and routers are the razors and the services are the razor blades.

Interviews with a series of Cisco certified Network Engineers shows a very interesting trend. The Cisco certification is an on-going education series for an individual to modify, enhance and maintain current and new equipment. For Cisco's customers, there is a ready supply of Cisco certified technicians, which only enhances Cisco's ability to sway the IT mangers with the large available base of educated staff.

Service Revenue increased 18% year over year.

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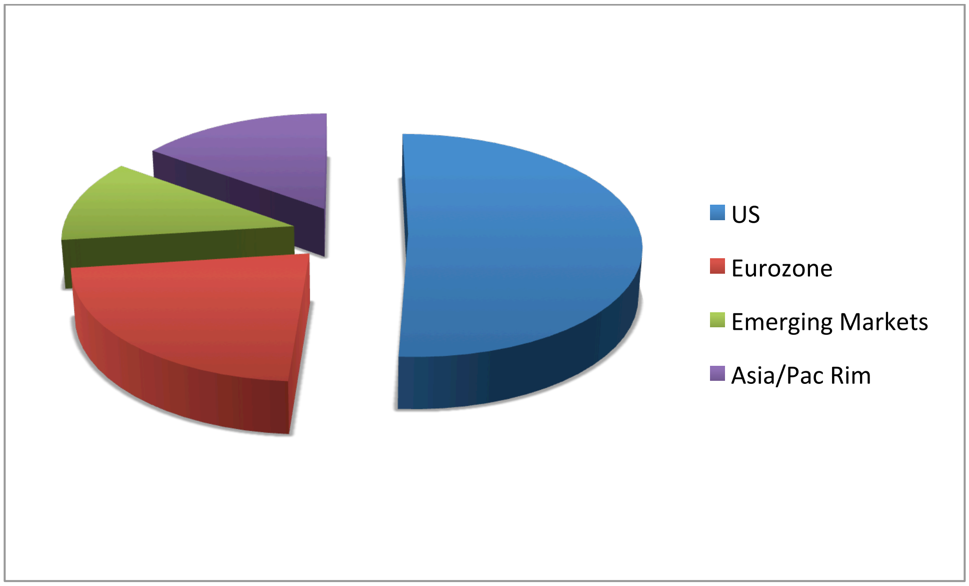
Breakdown of Revenue by Geographic area:



US Market 51%
Eurozone 22%
*Emerging Market 12%
Asia/Pac Rim: 15%

* Cisco defines their Emerging Markets as Eastern Europe, Latin America, the Middle East, Africa and Russia.

US and Canada Market

The increases over the last fiscal year in the United States were attributed to all customer markets. The increases were in commercial, enterprise and government sales. The specific increase in consumer product sales was due to the sales of the 'Flip' video cameras.

Eurozone Market

The Eurozone saw increases over the last fiscal year primarily in the United Kingdom and France. There were some decreases in Germany and Italy. Interviews with Eurozone product managers of associate vendors companies showed a significant potential demand in the Netherlands. Cisco products with high bandwidth backhaul capabilities for 4G wireless networks will be realized in the 2011-2015 time frame.

Emerging Market

The Emerging Market area that shows the greatest growth potential is Brazil, Mexico and Russia. The customers buying in these countries tend to buy large significant purchases, but do so on a sporadic basis. They also require financing, ongoing service and support. This improves the profit margins of sales due to the ongoing services needed beyond the sale of the technology.

Asia/Pacific Rim Market

The two largest countries driving sales here is Australia and China. In these areas sales were for Enterprise, Commercial, and Service Providers. While it is obvious due to the significant increases in GDP for China, Australia is an interesting country for business. In the past year politicians in Australia were elected with the promise to wire the entire continent to broadband. This will encompass optical backhaul, wireless 4G, and satellite communications. The next 3-5 years in Australia represents a huge sales opportunity for companies such as Cisco.

Case for Investment:

Cisco is selling for a historically low Price to Earnings ratio. In addition they have over 40 Billion in cash on the books, which is a significant margin of safety for this investment. The interest coverage is 14.25 times which is the highest in the industry. This level of coverage based upon earnings makes Cisco one of the most financially sound companies in its business space.

Profit margins in the hardware business can be very thin at times. The profit margins reported at Cisco are 62%, which represents the ability to hold pricing in a very competitive environment. The market recently expected 63% margins but overall these margins are very good. While we will closely track the margins to make sure Cisco is not cutting prices, at this time we don't feel this is an item of concern.

In just the past two months Cisco has shown it can take initiative on strategy. For years, the management was chasing what was termed 'market adjacencies' – associated lines of business that coincide with the current business Cisco was in. That is what drew them to the consumer product lines that they are now divesting themselves of. This strategy of chasing adjacent markets will end and Cisco will be back to focus on what made them the company they are.

For Cisco's customers – Our research shows that Capital Expenditures for the IP Customer base will increase over the next 3-5 years. Budgets have been held back the past 3-5 years and only now company IT managers are getting the green light to allocate their funds for equipment to expand their enterprise networks. Worldwide bandwidth demand has been increasing every year since the technology bubble burst in 2001. Cisco has the current product and R&D to take advantage of this demand. In the Wireless area the demand on the network backbone is tremendous – AT&T alone has seen and 8000% increase in data usage since offering the Apple iPhone. In the USA alone mobile data traffic for carriers has doubling each year of the past 3 years.

There is product demand in the pipeline, Cisco has the technology, their supply chain and business relationships will meet this demand and it makes Cisco a compelling investment opportunity.

Projections:

We predict the 2012 end of year earning for Cisco to be $1.31 per share. Taking into account the very low historical Price/Earnings ratio Cisco is currently trading at we predict the long term P/E to be 17 times earnings. The Average Annual P/E for Cisco in the post-Y2K era is closer to 20, and we feel this conservative P/E forecast will allow a very good margin of safety going forward.

Recommendation and Price Target:

The current price of Cisco makes for a very attractive investment. With the projected earning for 2012 at $1.31 and the long term P/E of 17, the price for Cisco at the end of 2012 is projected to be $22.27

Risks:

A risk to keep in mind for Cisco is Japan. Clearly the earthquake and nuclear plant issues in Japan will affect the entire technology industry. Japan represents 30% of the chip production and 15% of the computer and LCD TV production. It remains unclear at this stage if Cisco's supply chain is affected but we feel any affect is temporary. Cisco has stated that their key suppliers have been spared any significant damage. Cisco has been working to restore all of the enterprise communications for their Japan based customers. The Asia Pacific Rim area represents 15% of Cisco revenue, which Japan makes up 4%. Any negative speculation on Japan could represent an additional buying opportunity.

An additional risk to Cisco's revenue stream would be ongoing consolidation of its current customer base. While mergers and acquisitions are a normal part of business, some of the longer-term projections would be negatively impacted by the absorption of some of its larger customers.

Changes in the general nature of telecommunications regulation could have a negative impact on Cisco's operating earnings. There could be regulation put in place that could affectively slow down the deployment of next generation technology and the incentives that create demand for Cisco's products.

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While Cisco is doing very well with generation of cash, the number of days for accounts receivable increased from 34 days to 41 days showing customers may be late with payments. Also, inventory increased from 1.1 billion in fiscal 2009 to 1.3 billion at the end of fiscal year 2010. We believe the inventory build up is for anticipated upcoming sales but it could also be from unsold equipment.

In addition, CEO John Chambers chose Gary Moore to be Chief Operating Officer, which puts him in the Number 2 slot under the CEO. On April 6, 2011 Mr. Chambers sent an unprecedented email to Cisco's employee's noting his current strategy is strong, but there will be changes. Normally he sends videos for employee communications and this is the first time a documented email was used. We feel this was meant to send a message to more than just the employees. Mr. Chambers went on in his email to note that the surprises in Cisco's business will be addressed. He notes as well the focus of simplifying the operations of the company, which we feel is a reduction in SG&A staff salaries.

Generally speaking a double dip recession for the US market would hurt Cisco's short-term results due to companies cutting back on Capital Expenditures. This risk may be minimized now since more IT budgets are funded and allow for the expansion that was delayed from the last recessionary period.

Finally, Cisco's competitors have been cutting prices to remain competitive and if gross margin continue to go down it may be a sign that they are having reduce prices in their industry. If this becomes the case we would adjust our earnings forecast to correlate with these margins.

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Appendix:

Exhibit 1: Financial Data Model

Operating Assumptions

REVENUE BUILD UP			2011	2012	2013	2014	2015
Volume Growth							
	1	Management Case	10.0%	10.0%	10.0%	10.0%	10.0%
	2	Base Case	9.0%	9.0%	9.0%	9.0%	9.0%
	3	Downside Case	5.0%	5.0%	5.0%	5.0%	5.0%
Active Case		Management Case	10.0%	10.0%	10.0%	10.0%	10.0%
Price Growth			2011	2012	2013	2014	2015
	1	Management Case	1.0%	2.0%	2.0%	2.0%	2.0%
	2	Base Case	1.0%	1.0%	1.0%	1.0%	1.0%
	3	Downside Case	0.0%	0.0%	0.0%	0.0%	0.0%
Active Case		Management Case	1.0%	2.0%	2.0%	2.0%	2.0%
Revenue Growth			2011	2012	2013	2014	2015
Active Case		Management Case	11.1%	12.2%	12.2%	12.2%	12.2%
COGS %			2011	2012	2013	2014	2015
	1	Management Case	36.0%	36.0%	36.0%	36.0%	36.0%
	2	Base Case	35.0%	35.0%	35.0%	35.0%	35.0%
	3	Downside Case	40.0%	40.0%	40.0%	40.0%	40.0%
Active Case		Management Case	36.0%	36.0%	36.0%	36.0%	36.0%
SG&A %			2011	2012	2013	2014	2015
	1	Management Case	35.0%	35.0%	35.0%	35.0%	35.0%
	2	Base Case	40.0%	40.0%	40.0%	40.0%	40.0%
	3	Downside Case	45.0%	45.0%	45.0%	45.0%	45.0%
Active Case		Management Case	35.0%	35.0%	35.0%	35.0%	35.0%
Capex			2011	2012	2013	2014	2015
	1	Management Case	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0
	2	Base Case	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
	3	Downside Case	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
Active Case		Management Case	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0

VALUATION ANALYSIS

		2010	2011	2012	2013	2014	2015
			Projected				
		0	*1*	*2*	*3*	*4*	*5*
Free Cash Flow Calculation							
EBIT			$10,400.5	$11,974.3	$13,740.2	$15,721.5	$17,944.5
Plus: Depreciation			2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Plus: Amortization			500.0	500.0	500.0	500.0	500.0
EBITDA			**12,900.5**	**14,474.3**	**16,240.2**	**18,221.5**	**20,444.5**
Less: Capex			(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)
EBITDA Less Capex			**11,892.5**	**13,466.3**	**15,232.2**	**17,213.5**	**19,436.5**
Less: Taxes on EBIT	40.0%		(4,160.2)	(4,789.7)	(5,496.1)	(6,288.6)	(7,177.8)
Less: Changes in Working Capital			(71.2)	(82.3)	(92.4)	(103.6)	(116.3)
Unlevered Free Cash Flow			**7,661.1**	**8,594.3**	**9,643.8**	**10,821.3**	**12,142.4**

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CASH FLOW STATEMENTS

	Projected				
	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Operating Activities:					
Net Income	$6,239.6	$7,416.9	$8,721.3	$10,187.6	$11,835.7
Depreciation	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Amortization	500.0	500.0	500.0	500.0	500.0
Financing Costs Amortization	831.4	831.4	831.4	831.4	831.4
Subtotal	9,571.0	10,748.3	12,052.7	13,519.0	15,167.1
Changes in Working Capital	(71.2)	(82.3)	(92.4)	(103.6)	(116.3)
Cash Flow from Operations	9,499.8	10,666.0	11,960.3	13,415.4	15,050.8
Investing Activities:					
Less: Capital Expenditures	(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)
Plus: Investment Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Cash Flow from / (Used by) Investing	(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)	(1,008.0)
Cash Available for Debt Repayment	8,491.8	9,658.0	10,952.3	12,407.4	14,042.8
Financing Actitivies Capital Inflow / (Outflow):					
Revolver	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Term Loan	**(3,096.0)**	**0.0**	**0.0**	**0.0**	**0.0**
Sr. Sub. Notes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash Flow from / (Used by) Financing	**(3,096.0)**	**0.0**	**0.0**	**0.0**	**0.0**
Net Increase / (Decrease) in Cash	**5,395.8**	**9,658.0**	**10,952.3**	**12,407.4**	**14,042.8**

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BALANCE SHEETS

	Historical	Projected				
	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
ASSETS:						
Required Cash	$4,581.0	5,023.7	5,568.5	6,179.8	6,865.7	7,635.3
Excess Cash	35280	40,675.8	50,333.8	61,286.2	73,693.5	87,736.3
Total Cash	$39,861.0	45,699.5	55,902.3	67,466.0	80,559.3	95,371.6
Accounts Receivable	4,929.0	5,476.1	6,144.2	6,893.8	7,734.8	8,678.5
Inventory	1,327.0	1,455.2	1,613.1	1,790.1	1,988.8	2,211.8
Prepaid Expenses	5,304.0	5,816.5	6,447.4	7,155.2	7,949.3	8,840.4
Current Assets	51,421.0	58,447.4	70,107.0	83,305.1	98,232.3	115,102.3
PP&E - Gross	3,941.0	4,949.0	5,957.0	6,965.0	7,973.0	8,981.0
Less: Accum. Depn.	0.0	(2,000.0)	(4,000.0)	(6,000.0)	(8,000.0)	(10,000.0)
Net PP&E	3,941.0	2,949.0	1,957.0	965.0	(27.0)	(1,019.0)
Intangibles	19,948.0	19,448.0	18,948.0	18,448.0	17,948.0	17,448.0
Cap. Financing Costs	5,820.0	4,988.6	4,157.1	3,325.7	2,494.3	1,662.9
Total Assets	$81,130.0	$85,833.0	$95,169.1	$106,043.8	$118,647.6	$133,194.1
LIABILITIES & EQUITY:						
Accounts Payable	895.0	981.5	1,087.9	1,207.4	1,341.4	1,491.7
Accrued Expenses	15,242.0	16,714.9	18,527.7	20,561.7	22,843.8	25,404.4
Current Liabilities	16,137.0	17,696.4	19,615.6	21,769.1	24,185.2	26,896.1
Revolver	0.0	0.0	0.0	0.0	0.0	0.0
Term Loan	3,096.0	0.0	0.0	0.0	0.0	0.0
Sr. Sub. Notes	12,188.0	12,188.0	12,188.0	12,188.0	12,188.0	12,188.0
Total Debt	15,284.0	12,188.0	12,188.0	12,188.0	12,188.0	12,188.0
Other Liabilities	5,424.0	5,424.0	5,424.0	5,424.0	5,424.0	5,424.0
Total Liabilities	36,845.0	35,308.4	37,227.6	39,381.1	41,797.2	44,508.1
Common Equity	44,285.0	50,524.6	57,941.5	66,662.8	76,850.4	88,686.0
Liabilities & Equity	$81,130.0	$85,833.0	$95,169.1	$106,043.8	$118,647.6	$133,194.1
Check	0.000	0.000	0.000	0.000	0.000	0.000

Analyst: Cliff Roberts
Analysis prepared in February of 2011 when the stock traded at $17.85

INCOME STATEMENTS

		Historical	Projected				
		2010	**2011**	**2012**	**2013**	**2014**	**2015**
Revenue		40,040.0	44,484.4	49,911.5	56,000.7	62,832.8	70,498.4
Less: Total COGS		(16,427.0)	(18,014.4)	(19,968.2)	(22,160.3)	(24,619.8)	(27,379.4)
Gross Profit		23,613.0	26,470.0	29,943.4	33,840.5	38,213.0	43,119.0
Less: Total SG&A		(16,479.0)	(16,069.6)	(17,969.0)	(20,100.3)	(22,491.5)	(25,174.5)
EBIT		7,134.0	10,400.5	11,974.3	13,740.2	15,721.5	17,944.5
Interest & Other Expense / (Income):	Rate						
Revolver	*1.00%*		0.0	0.0	0.0	0.0	0.0
Term Loan	*5.00%*		154.8	0.0	0.0	0.0	0.0
Sr. Sub. Notes	*5.00%*		609.4	609.4	609.4	609.4	609.4
Total Interest Expense			764.2	609.4	609.4	609.4	609.4
Less: Interest Income	**4.0%**		(1,594.4)	(1,828.0)	(2,236.1)	(2,698.6)	(3,222.4)
Financing Costs Amortization	**7.0 y**		831.4	831.4	831.4	831.4	831.4
Pretax Income			10,399.3	12,361.5	14,535.5	16,979.3	19,726.1
Less: Income Taxes	*40.00%*		(4,159.7)	(4,944.6)	(5,814.2)	(6,791.7)	(7,890.4)
Net Income			6,239.6	7,416.9	8,721.3	10,187.6	11,835.7
Shares Outstanding			5,655.000	5,655.000	5,655.000	5,655.000	5,655.000
Earnings per Share (EPS)			$1.10	$1.31	$1.54	$1.80	$2.09
EBITDA Reconciliation:							
EBIT			10,400.5	11,974.3	13,740.2	15,721.5	17,944.5
Plus: Depreciation			2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Plus: Amortization			500.0	500.0	500.0	500.0	500.0
EBITDA			12,900.5	14,474.3	16,240.2	18,221.5	20,444.5

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WORKING CAPITAL ASSUMPTIONS

	Pro Forma	Projected				
	2010	2011	2012	2013	2014	2015
Sales	$40,040.0	$44,484.4	$49,911.5	$56,000.7	$62,832.8	$70,498.4
Total COGS	16427.0	18014.4	19968.2	22160.3	24619.8	27379.4
Current Assets						
Required Cash	4581.0	5023.7	5568.5	6179.8	6865.7	7635.3
Accounts Receivable	4929.0	5476.1	6144.2	6893.8	7734.8	8678.5
Inventory	1327.0	1455.2	1613.1	1790.1	1988.8	2211.8
Prepaid Expenses	5304.0	5816.5	6447.4	7155.2	7949.3	8840.4
Current Assets	16141.0	17771.6	19773.2	22019.0	24538.7	27365.9
Current Liabilities						
Accounts Payable	895.0	981.5	1087.9	1207.4	1341.4	1491.7
Accrued Expenses	15242.0	16714.9	18527.7	20561.7	22843.8	25404.4
Current Liabilities	16137.0	17696.4	19615.6	21769.1	24185.2	26896.1
Net Cash Impact						
Net Working Capital	*4.0*	*75.2*	*157.5*	*249.9*	*353.5*	*469.8*
Cash (Used by) / Generated from Work. Cap.		*-71.2*	*-82.3*	*-92.4*	*-103.6*	*-116.3*
Ratios						
Required Cash % of COGS	*27.9%*	*27.9%*	*27.9%*	*27.9%*	*27.9%*	*27.9%*
A/R % of Sales	*12.3%*	*12.3%*	*12.3%*	*12.3%*	*12.3%*	*12.3%*
Days Receivable	*44.9 d*	*44.9 d*	*44.9 d*	*44.9 d*	*44.9 d*	*44.9 d*
Inventory % of COGS	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*
Inventory Turns	*12.4x*	*12.4x*	*12.4x*	*12.4x*	*12.4x*	*12.4x*
Prepaid % of COGS	*32.3%*	*32.3%*	*32.3%*	*32.3%*	*32.3%*	*32.3%*
Accts Payable % of COGS	*5.4%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*
Accrued % of COGS	*92.8%*	*92.8%*	*92.8%*	*92.8%*	*92.8%*	*92.8%*

CISCO

Analyst: Cliff Roberts
Analysis prepared in February of 2011 when the stock traded at $17.85

OPERATING ASSUMPTIONS

	Historical			Projected				
	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	$39,540.0	$36,117.0	$40,040.0	$44,484.4	$49,911.5	$56,000.7	$62,832.8	$70,498.4
Growth		*(8.7%)*	*10.9%*	*11.1%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*
Cost of Goods Sold:								
COGS (Excl. Depn.)	14,194.0	13,023.0	14,397.0	16,014.4	17,968.2	20,160.3	22,619.8	25,379.4
% Sales	*35.9%*	*36.1%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*
Depreciation	1,744.0	1,768.0	2,030.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
% Sales	*4.4%*	*4.9%*	*5.1%*	*4.5%*	*4.0%*	*3.6%*	*3.2%*	*2.8%*
Total COGS	15,938.0	14,791.0	16,427.0	18,014.4	19,968.2	22,160.3	24,619.8	27,379.4
% Sales	*40.3%*	*41.0%*	*41.0%*	*40.5%*	*40.0%*	*39.6%*	*39.2%*	*38.8%*
SG&A Expense:								
SG&A Expense (Excl. Amt.)	15,405.0	15,189.0	15,988.0	15,569.6	17,469.0	19,600.3	21,991.5	24,674.5
% Sales	*39.0%*	*42.1%*	*39.9%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Amortization	499.0	533.0	491.0	500.0	500.0	500.0	500.0	500.0
% Sales	*1.3%*	*1.5%*	*1.2%*	*1.1%*	*1.0%*	*0.9%*	*0.8%*	*0.7%*
Total SG&A Expense	15,904.0	15,772.0	16,479.0	16,069.6	17,969.0	20,100.3	22,491.5	25,174.5
% Sales	*40.2%*	*43.7%*	*41.2%*	*36.1%*	*36.0%*	*35.9%*	*35.8%*	*35.7%*
EBITDA	9,941.0	7,905.0	9,655.0	12,900.5	14,474.3	16,240.2	18,221.5	20,444.5
Margin	*25.1%*	*21.9%*	*24.1%*	*29.0%*	*29.0%*	*29.0%*	*29.0%*	*29.0%*
Growth		*(20.5%)*	*22.1%*	*33.6%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*
Operating Profit (EBIT)	7,698.0	5,604.0	7,134.0	10,400.5	11,974.3	13,740.2	15,721.5	17,944.5
Margin	*19.5%*	*15.5%*	*17.8%*	*23.4%*	*24.0%*	*24.5%*	*25.0%*	*25.5%*
Total Capital Expenditures	1,268.0	1,005.0	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0
% of Sales	*3.2%*	*2.8%*	*2.5%*	*2.3%*	*2.0%*	*1.8%*	*1.6%*	*1.4%*

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Exhibit 2: Glossary of Terms

Virtualization: refers to the process of aggregating the current silo-ed data center resources into unified, shared resource pools that can be dynamically delivered to applications on demand - enabling the ability to move content and applications between devices and the network.

The Cloud: refers to an information technology hosting and delivery system in which resources, such as servers or software applications, are no longer tethered to a user's physical infrastructure but which instead are delivered to and consumed by the user "on demand" as an Internet-based service, whether singularly or with multiple other users simultaneously.

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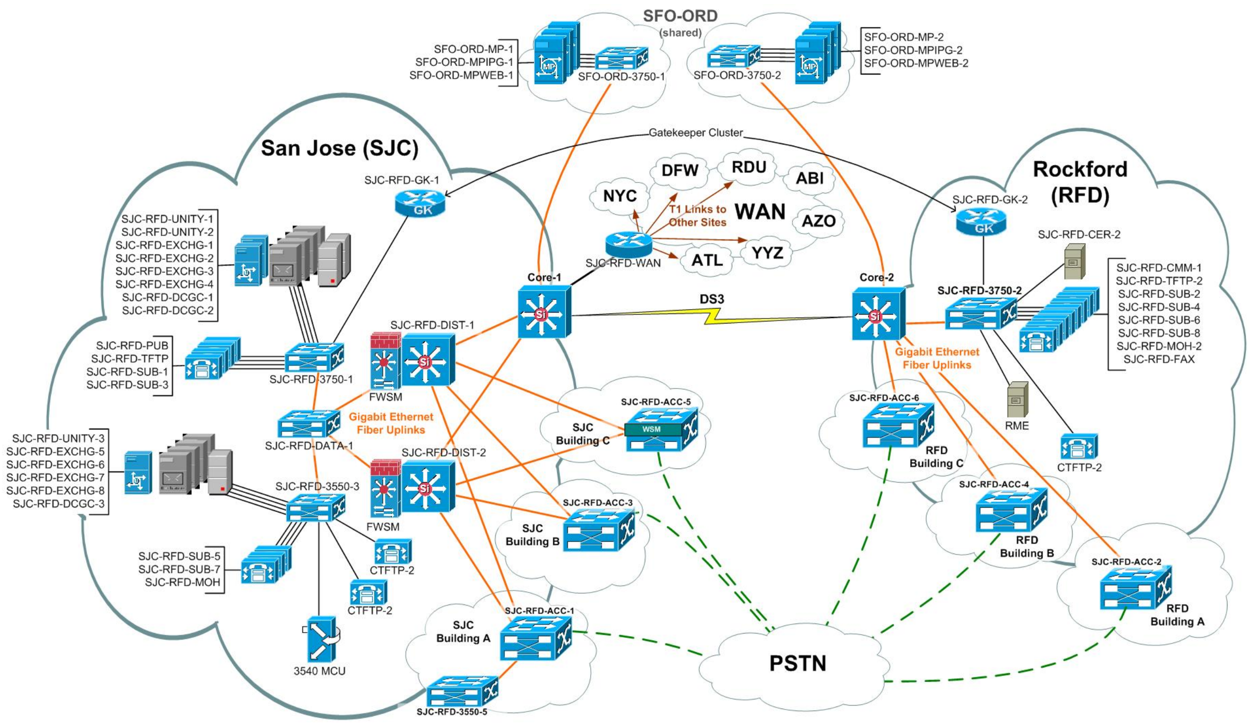
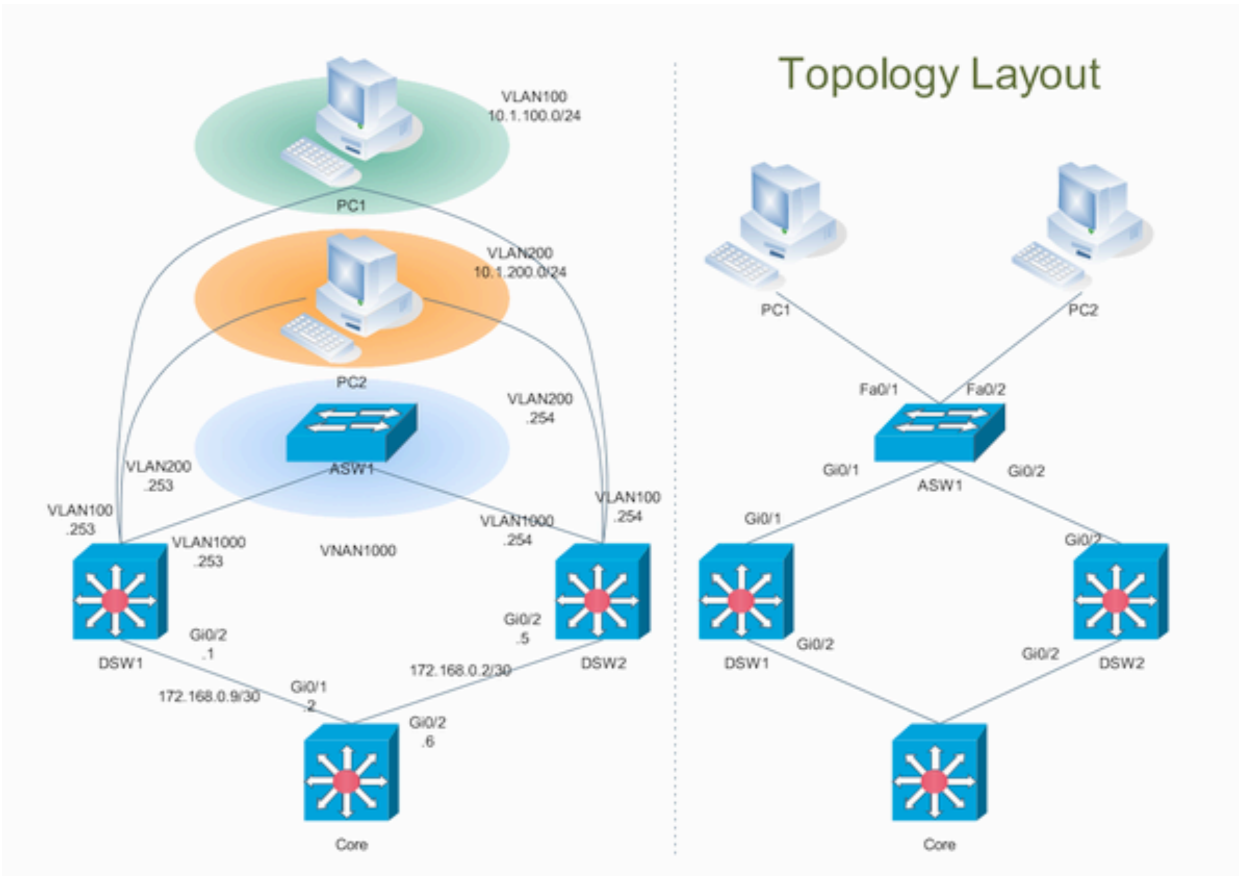
Exhibit 3: Network Diagrams

Example of a large two-city campus –



Cisco Network using Virtual Local Area Network (VLAN) Routers



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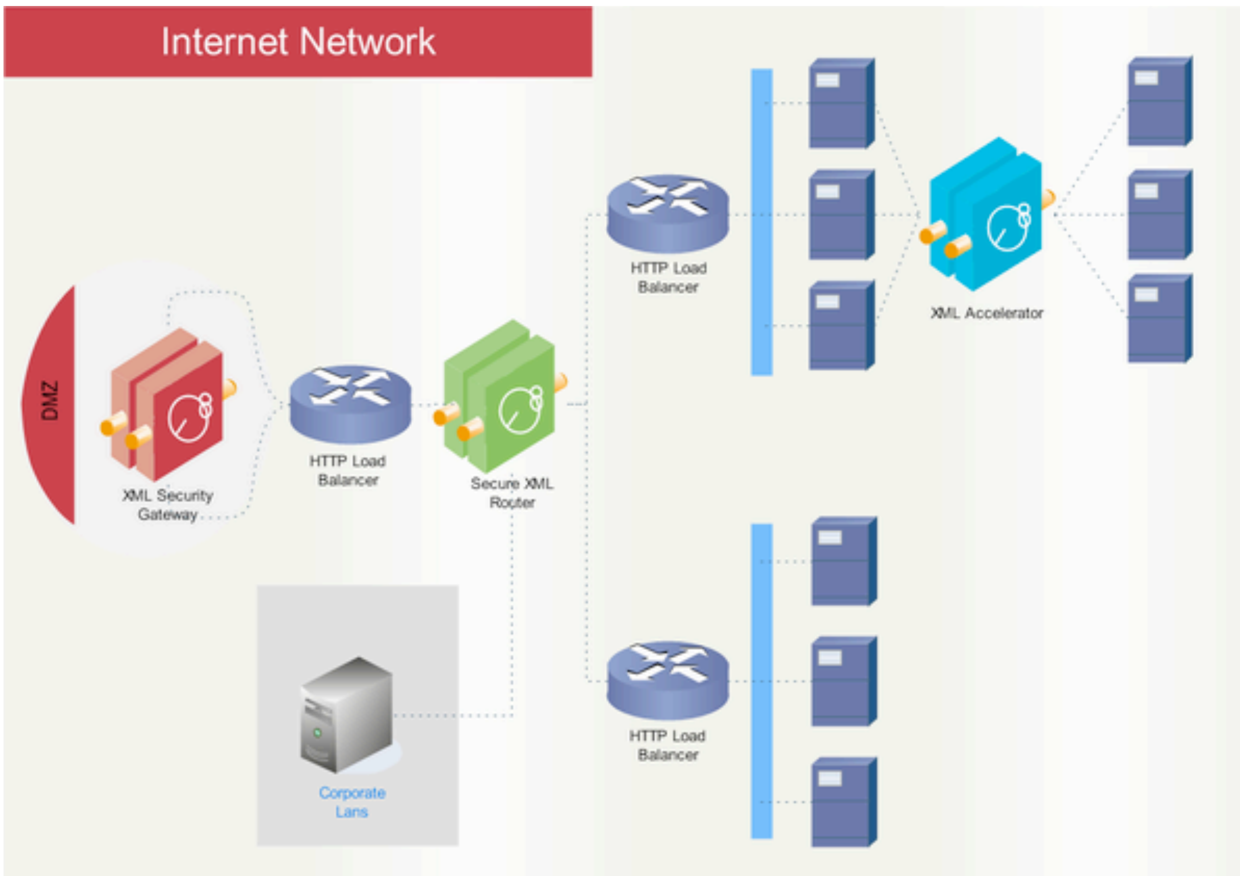
Cisco Wide Area Network (WAN):



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