CISCO SYSTEMS, INC.
Form 10-Q
February 19, 2019

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

FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 26, 2019

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 0-18225

CISCO SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

California	77-0059951
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

170 West Tasman Drive
San Jose, California 95134
(Address of principal executive office and zip code)
(408) 526-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
Number of shares of the registrant's common stock outstanding as of February 14, 2019: 4,402,027,716

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
CISCO SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)
(Unaudited)

	January 26, 2019	July 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$9,835	$8,934
Investments	30,548	37,614
Accounts receivable, net of allowance for doubtful accounts of $135 at January 26, 2019 and $129 at July 28, 2018	3,745	5,554
Inventories	1,701	1,846
Financing receivables, net	5,057	4,949
Other current assets	2,231	2,940
Total current assets	53,117	61,837
Property and equipment, net	2,931	3,006
Financing receivables, net	4,565	4,882
Goodwill	33,293	31,706
Purchased intangible assets, net	2,270	2,552
Deferred tax assets	4,081	3,219
Other assets	2,205	1,582
TOTAL ASSETS	$102,462	$108,784
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$9,737	$5,238
Accounts payable	1,655	1,904
Income taxes payable	1,110	1,004
Accrued compensation	2,599	2,986
Deferred revenue	9,976	11,490
Other current liabilities	4,402	4,413
Total current liabilities	29,479	27,035
Long-term debt	15,893	20,331
Income taxes payable	7,760	8,585
Deferred revenue	7,285	8,195
Other long-term liabilities	1,256	1,434
Total liabilities	61,673	65,580
Commitments and contingencies (Note 13)		
Equity:		
Cisco shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	—	—
Common stock and additional paid-in capital, $0.001 par value: 20,000 shares authorized; 4,424 and 4,614 shares issued and outstanding at January 26, 2019 and July 28, 2018, respectively	41,361	42,820
Retained earnings	538	1,233
Accumulated other comprehensive income (loss)	(1,110)	(849)
Total equity	40,789	43,204

TOTAL LIABILITIES AND EQUITY	$ 102,462	$ 108,784

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per-share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
REVENUE:				
Product	$9,273	$ 8,709	$19,163	$ 17,763
Service	3,173	3,178	6,355	6,260
Total revenue	12,446	11,887	25,518	24,023
COST OF SALES:				
Product	3,614	3,354	7,413	6,969
Service	1,059	1,035	2,186	2,129
Total cost of sales	4,673	4,389	9,599	9,098
GROSS MARGIN	7,773	7,498	15,919	14,925
OPERATING EXPENSES:				
Research and development	1,557	1,549	3,165	3,116
Sales and marketing	2,271	2,235	4,681	4,569
General and administrative	509	483	720	1,040
Amortization of purchased intangible assets	39	60	73	121
Restructuring and other charges	186	98	264	250
Total operating expenses	4,562	4,425	8,903	9,096
OPERATING INCOME	3,211	3,073	7,016	5,829
Interest income	328	396	672	775
Interest expense	(223)	(247)	(444)	(482)
Other income (loss), net	27	10	8	72
Interest and other income (loss), net	132	159	236	365
INCOME BEFORE PROVISION FOR INCOME TAXES	3,343	3,232	7,252	6,194
Provision for income taxes	521	12,010	881	12,578
NET INCOME (LOSS)	$2,822	$ (8,778)	$6,371	$ (6,384)
Net income (loss) per share:				
Basic	$0.63	$ (1.78)	$1.41	$ (1.29)
Diluted	$0.63	$ (1.78)	$1.40	$ (1.29)
Shares used in per-share calculation:				
Basic	4,470	4,924	4,517	4,942
Diluted	4,505	4,924	4,557	4,942

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Net income (loss)	$2,822	$ (8,778)	$6,371	$ (6,384)
Available-for-sale investments:				
Change in net unrealized gains and losses, net of tax benefit (expense) of $(12) and $1 for the second quarter and first six months of fiscal 2019, respectively, and $1 and $(22) for the corresponding periods of fiscal 2018, respectively	82	(191)	87	(196)
Net (gains) losses reclassified into earnings, net of tax (benefit) expense of $(1) for each of the second quarter and first six months of fiscal 2019, respectively, and $15 and $25 for the corresponding periods of fiscal 2018, respectively	4	(43)	10	(66)
	86	(234)	97	(262)
Cash flow hedging instruments:				
Change in unrealized gains and losses, net of tax benefit (expense) of $1 and $2 for the second quarter and first six months of fiscal 2019, respectively, and $(2) and $(3) for the corresponding periods of fiscal 2018, respectively	(4)	28	(7)	35
Net (gains) losses reclassified into earnings, net of tax (benefit) expense of $0 for each of the second quarter and first six months of fiscal 2019, respectively, and $2 and $4 for the corresponding periods of fiscal 2018, respectively	(1)	(16)	(1)	(27)
	(5)	12	(8)	8
Net change in cumulative translation adjustment and actuarial gains and losses net of tax benefit (expense) of $0 and $(1) for the second quarter and first six months of fiscal 2019, respectively, and $(4) and $(6) for the corresponding periods of fiscal 2018, respectively	27	274	(182)	291
Other comprehensive income (loss)	108	52	(93)	37
Comprehensive income (loss)	2,930	(8,726)	6,278	(6,347)
Comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—
Comprehensive income (loss) attributable to Cisco Systems, Inc.	$2,930	$ (8,726)	$6,278	$ (6,347)

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Six Months Ended	
	January 26, 2019	January 27, 2018
Cash flows from operating activities:		
Net income (loss)	$6,371	$ (6,384)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization, and other	952	1,112
Share-based compensation expense	792	785
Provision (benefit) for receivables	30	(43)
Deferred income taxes	(257)	1,021
(Gains) losses on divestitures, investments and other, net	(77)	(174)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	1,613	1,236
Inventories	(203)	(276)
Financing receivables	161	(156)
Other assets	(652)	(15)
Accounts payable	(296)	(338)
Income taxes, net	(830)	10,246
Accrued compensation	(339)	(189)
Deferred revenue	207	237
Other liabilities	88	88
Net cash provided by operating activities	7,560	7,150
Cash flows from investing activities:		
Purchases of investments	(677)	(13,954)
Proceeds from sales of investments	3,055	9,111
Proceeds from maturities of investments	6,263	7,365
Acquisitions and divestitures	(1,599)	(727)
Purchases of investments in privately held companies	(68)	(89)
Return of investments in privately held companies	43	124
Acquisition of property and equipment	(473)	(379)
Proceeds from sales of property and equipment	10	51
Other	(12)	(17)
Net cash provided by investing activities	6,542	1,485
Cash flows from financing activities:		
Issuances of common stock	312	302
Repurchases of common stock—repurchase program	(10,062)	(5,457)
Shares repurchased for tax withholdings on vesting of restricted stock units	(514)	(433)
Short-term borrowings, original maturities of 90 days or less, net	—	5,095
Issuances of debt	—	6,877
Repayments of debt	—	(6,230)
Dividends paid	(2,970)	(2,861)
Other	18	(22)
Net cash used in financing activities	(13,216)	(2,729)
Net increase in cash, cash equivalents, and restricted cash	886	5,906
Cash, cash equivalents, and restricted cash, beginning of period	8,993	11,773

Cash, cash equivalents, and restricted cash, end of period	$9,879	$ 17,679
Supplemental cash flow information:		
Cash paid for interest	$421	$ 454
Cash paid for income taxes, net	$1,968	$ 1,311

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in millions, except per-share amounts)
(Unaudited)

Three Months Ended January 26, 2019	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT OCTOBER 27, 2018	4,517	$ 41,897	$ 3,169	$ (1,218)	$ 43,848	$ —	$ 43,848
Net income			2,822		2,822		2,822
Other comprehensive income (loss)				108	108		108
Issuance of common stock	22	304			304		304
Repurchase of common stock	(111)	(1,033)	(3,983)		(5,016)		(5,016)
Shares repurchased for tax withholdings on vesting of restricted stock units	(4)	(196)			(196)		(196)
Cash dividends declared ($0.33 per common share)			(1,470)		(1,470)		(1,470)
Share-based compensation		389			389		389
BALANCE AT JANUARY 26, 2019	4,424	$ 41,361	$ 538	$ (1,110)	$ 40,789	$ —	$ 40,789

Six Months Ended January 26, 2019	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT JULY 28, 2018	4,614	$ 42,820	$ 1,233	$ (849)	$ 43,204	$ —	$ 43,204
Net income			6,371		6,371		6,371
Other comprehensive income (loss)				(93)	(93)		(93)
Issuance of common stock	41	312			312		312
Repurchase of common stock	(220)	(2,049)	(7,993)		(10,042)		(10,042)
Shares repurchased for tax withholdings on vesting of restricted stock units	(11)	(514)			(514)		(514)
Cash dividends declared ($0.66 per common share)			(2,970)		(2,970)		(2,970)
Effect of adoption of accounting standards			3,897	(168)	3,729		3,729
Share-based compensation		792			792		792
BALANCE AT JANUARY 26, 2019	4,424	$ 41,361	$ 538	$ (1,110)	$ 40,789	$ —	$ 40,789

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Three Months Ended January 27, 2018	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT OCTOBER 28, 2017	4,951	$ 44,872	$ 20,647	$ 31	$ 65,550	$ —	$ 65,550
Net loss			(8,778)		(8,778)		(8,778)
Other comprehensive income (loss)				52	52	—	52
Issuance of common stock	22	293			293		293
Repurchase of common stock	(103)	(931)	(3,080)		(4,011)		(4,011)
Shares repurchased for tax withholdings on vesting of restricted stock units	(2)	(91)			(91)		(91)
Cash dividends declared ($0.29 per common share)			(1,425)		(1,425)		(1,425)
Share-based compensation		393			393		393
Purchase acquisitions and other		(1)			(1)		(1)
BALANCE AT JANUARY 27, 2018	4,868	$ 44,535	$ 7,364	$ 83	$ 51,982	$ —	$ 51,982

Six Months Ended January 27, 2018	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT JULY 29, 2017	4,983	$ 45,253	$ 20,838	$ 46	$ 66,137	$ —	$ 66,137
Net loss			(6,384)		(6,384)		(6,384)
Other comprehensive income (loss)				37	37		37
Issuance of common stock	52	302			302		302
Repurchase of common stock	(154)	(1,393)	(4,238)		(5,631)		(5,631)
Shares repurchased for tax withholdings on vesting of restricted stock units	(13)	(433)			(433)		(433)
Cash dividends declared ($0.58 per common share)			(2,861)		(2,861)		(2,861)
Effect of adoption of accounting standards			9		9		9
Share-based compensation		785			785		785
Purchase acquisitions and other		21			21		21
BALANCE AT JANUARY 27, 2018	4,868	$ 44,535	$ 7,364	$ 83	$ 51,982	$ —	$ 51,982

See Notes to Consolidated Financial Statements.

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CISCO SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The fiscal year for Cisco Systems, Inc. (the “Company,” “Cisco,” “we,” “us,” or “our”) is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2019 and fiscal 2018 are each 52-week fiscal years. The Consolidated Financial Statements include our accounts and those of our subsidiaries. All intercompany accounts and transactions have been eliminated. We conduct business globally and are primarily managed on a geographic basis in the following three geographic segments: the Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific, Japan, and China (APJC).

We have prepared the accompanying financial data as of January 26, 2019 and for the second quarter and first six months of fiscal 2019 and fiscal 2018, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The July 28, 2018 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, we believe that the disclosures are adequate to make the information presented not misleading. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

We consolidate our investments in certain variable interest entities (VIEs) where we are the primary beneficiary. The noncontrolling interests attributed to these investments, if any, are presented as a separate component from our equity in the equity section of the Consolidated Balance Sheets. The share of earnings attributable to the noncontrolling interests are not presented separately in the Consolidated Statements of Operations as these amounts are not material for any of the fiscal periods presented.

In the opinion of management, all normal recurring adjustments necessary to present fairly the consolidated balance sheet as of January 26, 2019; the results of operations and the statements of comprehensive income (loss) for the second quarter and first six months of fiscal 2019 and fiscal 2018; the statements of cash flows for the first six months of fiscal 2019 and fiscal 2018; and the statements of equity for the second quarter and first six months of fiscal 2019 and fiscal 2018, as applicable, have been made. The results of operations for the second quarter and first six months of fiscal 2019 and fiscal 2018 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Certain reclassifications have been made to the amounts in prior periods in order to conform to the current period’s presentation. We have evaluated subsequent events through the date that the financial statements were issued.

2. Recent Accounting Pronouncements

(a) New Accounting Updates Recently Adopted

Revenue Recognition In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, a new accounting standard related to revenue recognition. ASC 606 supersedes nearly all U.S. GAAP on revenue recognition and eliminated industry-specific guidance. The underlying principle of ASC 606 is to recognize revenue when a customer obtains control of promised goods or services at an amount that reflects the consideration that is expected to be received in exchange for those goods or services. It also requires increased disclosures including the nature, amount, timing, and uncertainty of revenues and cash flows related to contracts with customers.

ASC 606 allows two methods of adoption: i) retrospectively to each prior period presented (“full retrospective method”), or ii) retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption ("modified retrospective method"). At the beginning of the first quarter of fiscal 2019, we adopted ASC 606 using the modified retrospective method to those contracts that were not completed as of July 28, 2018. Refer to Opening Balance Adjustments below for the impact of adoption on our Consolidated Financial Statements.

We have implemented new accounting policies, systems, processes, and internal controls necessary to support the requirements of ASC 606.

ASC 606 primarily impacts our revenue recognition for software arrangements and sales to two-tier distributors. In both areas, the new standard accelerates the recognition of revenue.

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CISCO SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The table below details the timing of when revenue was typically recognized under the prior revenue standard compared to the timing of when revenue is typically recognized under ASC 606 for these major areas:

	Prior Revenue Standard	ASC 606
Software arrangements:		
Perpetual software licenses	Upfront	Upfront
Term software licenses	Ratable	Upfront
Security software licenses	Ratable	Ratable
Enterprise license agreements (software licenses)	Ratable	Upfront
Software support (maintenance)	Ratable	Ratable
Software-as-a-service	Ratable	Ratable
Two-tier distribution	Sell-Through	Sell-In

In addition to the above revenue recognition timing impacts, ASC 606 requires incremental contract acquisition costs (such as sales commissions) for customer contracts to be capitalized and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relates.

We enter into contracts with customers that can include various combinations of products and services which are generally distinct and accounted for as separate performance obligations. As a result, our contracts may contain multiple performance obligations. We determine whether arrangements are distinct based on whether the customer can benefit from the product or service on its own or together with other resources that are readily available and whether our commitment to transfer the product or service to the customer is separately identifiable from other obligations in the contract. We classify our hardware, perpetual software licenses, and software-as-a-service (SaaS) as distinct performance obligations. Term software licenses represent multiple obligations, which include software licenses and software maintenance. In transactions where we deliver hardware or software, we are typically the principal and we record revenue and costs of goods sold on a gross basis. We refer to our term software licenses, security software licenses, SaaS, and associated service arrangements as subscription offers.

We recognize revenue upon transfer of control of promised goods or services in a contract with a customer in an amount that reflects the consideration we expect to receive in exchange for those products or services. Transfer of control occurs once the customer has the contractual right to use the product, generally upon shipment or once delivery and risk of loss has transferred to the customer. Transfer of control can also occur over time for software maintenance and services as the customer receives the benefit over the contract term. Our hardware and perpetual software licenses are distinct performance obligations where revenue is recognized upfront upon transfer of control. Term software licenses include multiple performance obligations where the term licenses are recognized upfront upon transfer of control, with the associated software maintenance revenue recognized ratably over the contract term as services and software updates are provided. SaaS arrangements have one distinct performance obligation which is satisfied over time with revenue recognized ratably over the contract term as the customer consumes the services. On our product sales, we record consideration from shipping and handling on a gross basis within net product sales. We record our revenue net of any associated sales taxes.

Significant Judgments

Revenue is allocated among these performance obligations in a manner that reflects the consideration that we expect to be entitled to for the promised goods or services based on standalone selling prices (SSP). SSP is estimated for each distinct performance obligation and judgment may be required in their determination. The best evidence of SSP is the observable price of a product or service when we sell the goods separately in similar circumstances and to similar customers. In instances where SSP is not directly observable, we determine SSP using information that may include market conditions and other observable inputs.

We apply judgment in determining the transaction price as we may be required to estimate variable consideration when determining the amount of revenue to recognize. Variable consideration includes various rebate, cooperative marketing, and other incentive programs that we offer to our distributors, partners and customers. When determining the amount of revenue to recognize, we estimate the expected usage of these programs, applying the expected value or most likely estimate and update the estimate at each reporting period as actual utilization becomes available. We also consider the customers' right of return in determining the transaction price, where applicable.

We assess certain software licenses, such as for security software, that contain critical updates or upgrades which customers can download throughout the contract term. Without these updates or upgrades, the functionality of the software would diminish over a relatively short time period. These updates or upgrades provide the customer the full functionality of the purchased security software licenses and are required to maintain the security license's utility as the risks and threats in the environment are rapidly

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CISCO SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

changing. In these circumstances, the revenue from these software arrangements is recognized as a distinct performance obligation satisfied over the contract term.

For the additional disclosures required as part of ASC 606 see Note 3.

Financial Instruments In January 2016, the FASB issued an accounting standard update that changes the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The most significant impact of this accounting standard update is that it requires the remeasurement of investments not accounted for under the equity method to be recorded at fair value through the Consolidated Statement of Operations at the end of each reporting period. The application of this accounting standard update increases the variability of other income (loss), net.

Our equity investments are accounted for as follows:

- Marketable equity securities have readily determinable fair value (RDFV) that are measured and recorded at fair value.
- Non-marketable equity securities do not have RDFV and are measured using a measurement alternative recorded at cost less any impairment, plus or minus changes resulting from qualifying observable price changes. For certain of these securities, we have elected to apply the net asset value (NAV) practical expedient. The NAV is the estimated fair value of these investments.
- Equity method investments are securities we do not control, but are able to exert significant influence over the investee. These investments are measured at cost less any impairment, plus or minus our share of equity method investee income or loss.

We adopted this accounting standard update beginning the first quarter of fiscal 2019. The standard was adopted using the modified retrospective method for our marketable equity securities and non-marketable equity securities measured using the NAV practical expedient. For our non-marketable equity securities measured using the measurement alternative, we applied the prospective method. Refer to Opening Balance Adjustments below for the impact of adoption on our Consolidated Balance Sheet.

Income Taxes on Intra-Entity Transfers of Assets In October 2016, the FASB issued an accounting standard update that requires recognition of the income tax consequences of intra-entity transfers of assets (other than inventory) at the transaction date. We adopted this accounting standard update beginning in the first quarter of fiscal 2019 on a modified retrospective basis. The ongoing impact of this standard will be facts and circumstances dependent on any transactions within its scope. Refer to Opening Balance Adjustments below for the impact of adoption on our Consolidated Balance Sheet.

Classification of Cash Flow Elements In August 2016, the FASB issued an accounting standard update related to the classification of certain cash receipts and cash payments on the statement of cash flows. We adopted this accounting standard update beginning in the first quarter of fiscal 2019 on a retrospective basis. The application of this accounting standard update did not have an impact on our Consolidated Statements of Cash Flows.

Restricted Cash in Statement of Cash Flows In November 2016, the FASB issued an accounting standard update that provides guidance on the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. We adopted this accounting standard update beginning in the first quarter of fiscal 2019 using a retrospective transition method to each period presented. The application of this accounting standard update did not have a material impact on our Consolidated Statements of Cash Flows. Prior period information has been retrospectively adjusted due to the adoption of ASU 2016-18, Statement of Cash Flows, Restricted Cash at the beginning of the first quarter of fiscal 2019.

Simplifying the Test for Goodwill Impairment In January 2017, the FASB issued an accounting standard update that removes Step
2 of the goodwill impairment test, which requires the assessment of fair value of individual assets and liabilities of a reporting unit to measure goodwill impairments. Goodwill impairment will now be the amount by which a reporting

unit's carrying value exceeds its fair value. We early adopted this accounting standard update beginning in the first quarter of fiscal 2019 on a prospective basis. The application of this accounting standard update did not have any impact on our Consolidated Financial Statements.

Definition of a Business In January 2017, the FASB issued an accounting standard update that clarifies the definition of a business to help companies evaluate whether acquisition or disposal transactions should be accounted for as asset groups or as businesses. We adopted this accounting standard update beginning in the first quarter of fiscal 2019 on a prospective basis. The impact of this accounting standard update will be fact dependent, but we expect that some transactions that were previously accounted for as business combinations or disposal transactions will be accounted for as asset purchases or asset sales under the accounting standard update.

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CISCO SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Opening Balance Adjustments

The following table summarizes the cumulative effect of the changes made to the Consolidated Balance Sheet for the adoption of ASC 606, ASU 2016-01, Financial Instruments, and ASU 2016-16, Intra-Entity Transfers of Assets Other than Inventory (in millions):

Line Item in Consolidated Balance Sheet:	Balance at July 28, 2018	New Revenue Recognition Standard	New Financial Instruments Standard	New Intra-Entity Transfers Standard	Adjusted Balance at July 29, 2018
ASSETS					
Accounts receivable, net	$5,554	$ (104) [1]	$ —	$ —	$5,450
Inventories	$1,846	$ (302) [2]	$ —	$ —	$1,544
Other current assets (includes capitalized contract acquisition costs)	$2,940	$ 371 [3], [4]	$ —	$ (25) [3]	$3,286
Deferred tax assets	$3,219	$ (624) [3]	$ (15) [3]	$ 1,415 [8]	$3,995
Other assets (includes capitalized contract acquisition costs)	$1,582	$ 327 [4]	$ 136 [7]	$ (91) [3]	$1,954
TOTAL ASSETS	$108,784	$ (332)	$ 121	$ 1,299	$109,872
LIABILITIES AND EQUITY					
Income taxes payable	$1,004	$ —	$ —	$ 11 [3]	$1,015
Deferred revenue — current	$11,490	$ (1,702) [5]	$ —	$ —	$9,788
Other current liabilities	$4,413	$ 33 [6]	$ —	$ —	$4,446
Deferred revenue — non-current	$8,195	$ (1,081) [5]	$ —	$ —	$7,114
Other long-term liabilities	$1,434	$ 85 [3]	$ 13 [3]	$ —	$1,532
Retained earnings	$1,233	$ 2,333 [10]	$ 283 [10]	$ 1,281 [10]	$5,130
Accumulated other comprehensive income (loss)	$(849)	$ —	$ (175) [9]	$ 7 [3]	$(1,017)
TOTAL LIABILITIES AND EQUITY	$108,784	$ (332)	$ 121	$ 1,299	$109,872

[1] Primarily represents the decrease to accounts receivable related to the change in recognizing revenue on sales to two-tier distributors from a sell-through to a sell-in basis

[2] Primarily represents the reduction of inventory for the change from recognizing revenue on sales to two-tier distributors from a sell-through to a sell-in basis

[3] Includes the impacts to deferred tax assets, liabilities and other income tax balances

[4] Primarily represents capitalized contract acquisition costs (e.g. commissions)

[5] Primarily represents deferred revenue adjusted to retained earnings primarily due to the change in revenue recognition for certain software arrangements from ratable to upfront, recognizing revenue on sales to two-tier distributors from a sell-through to a sell-in basis. Of this total $2.8 billion adjustment, $2.6 billion related to product deferred revenue, of which $1.3 billion relates to our recurring software and subscription offers, $0.6 billion relates to two-tier distribution, and the remainder relates to non-recurring software and other adjustments.

[6] Primarily represents the reclassification of accounts receivable contra balances to other current liabilities, adjustments to rebate liabilities for the change from recognizing revenue on sales to two-tier distributors from a sell-through to a sell-in basis, and reclassifications from other current liabilities for amounts that are not contract liabilities under ASC 606

(7) Represents the adjustment due to the remeasurement of non-marketable equity investments at fair value
(8) Primarily represents the change in net deferred tax assets related to unrecognized income tax effects of intra-entity asset transfers
(9) Represents the reclassification of net unrealized gains from accumulated other comprehensive income (loss) to retained earnings
(10) Retained earnings impact from the adjustments noted above

Impact of ASC 606 Adoption

The application of ASC 606 increased our total revenue by $267 million and $516 million in the second quarter and first six months of fiscal 2019, respectively. The application of ASC 606 did not have a material impact to either our cost of sales or our operating expenses in the second quarter and first six months of fiscal 2019. We recognized a $152 million benefit to our provision for income taxes relating to indirect effects from the adoption of ASC 606 in the first quarter of fiscal 2019. For additional information regarding ASC 606, see Note 3 to the Consolidated Financial Statements.

In connection with the adoption of ASC 606, we recorded a transition adjustment to increase retained earnings by $2.3 billion. See above for the transition impact of ASC 606 by balance sheet line item. As of January 26, 2019, the balance sheet changes attributable to ASC 606 related to accounts receivable, inventories, and deferred revenue were not materially different than the impacts upon adoption. In connection with the adoption of ASC 606, we established contract assets for unbilled receivables. As of January 26, 2019, we had total contract assets of $557 million, of which $241 million was recorded in other current assets and $316 million was recorded in other assets. As of January 26, 2019, we had total capitalized contract acquisition costs of $686 million, of which $380 million was recorded in other current assets and $306 million was recorded in other assets. The adoption of ASC 606 did not have any impact on net cash provided by operating activities.

(b) Recent Accounting Standards or Updates Not Yet Effective

Leases In February 2016, the FASB issued an accounting standard update and subsequent amendments related to leases requiring lessees to recognize operating and financing lease liabilities on the balance sheet, as well as corresponding right-of-use assets. The new lease standard also makes some changes to lessor accounting and aligns key aspects of the lessor accounting model with the revenue recognition standard. In addition, disclosures will be required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The accounting standard update will be effective for us beginning in the first quarter of fiscal 2020 and early adoption is permitted. We expect to adopt this accounting standard update on a modified retrospective basis in the first quarter of fiscal 2020, and we are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

Credit Losses of Financial Instruments In June 2016, the FASB issued an accounting standard update that requires measurement and recognition of expected credit losses for financial assets held based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The accounting standard update will be effective for us beginning in the first quarter of fiscal 2021 and early adoption in fiscal 2020 is permitted. We expect to adopt this accounting standard update on a modified retrospective basis in the first quarter of fiscal 2021, and we are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

3. Revenue

(a) Disaggregation of Revenue

We disaggregate our revenue into groups of similar products and services that depict the nature, amount, and timing of revenue and cash flows for our various offerings. The sales cycle, contractual obligations, customer requirements, and go-to-market strategies differ for each of our product categories, resulting in different economic risk profiles for each category. The following table presents this disaggregation of revenue (in millions):

	Three Months Ended		Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue:				
Infrastructure Platforms	$7,128	$ 6,710	$14,770	$ 13,690
Applications	1,465	1,184	2,884	2,387
Security	658	557	1,308	1,142
Other Products	22	258	200	544
Total Product	9,273	8,709	19,163	17,763
Services	3,173	3,178	6,355	6,260
Total [1]	$12,446	$ 11,887	$25,518	$ 24,023

Amounts may not sum due to rounding.

[1] During the second quarter of fiscal 2019, we completed the divestiture of the Service Provider Video Software Solutions ("SPVSS") business. Total revenue includes SPVSS business revenue of $0 and $230 million for the second quarter of fiscal 2019 and 2018, respectively, and $168 million and $478 million for the first six months of fiscal 2019 and 2018, respectively.

Infrastructure Platforms consist of our core networking technologies of switching, routing, data center products, and wireless that are designed to work together to deliver networking capabilities and transport and/or store data. These technologies consist of both hardware and software offerings, including software licenses and software-as-a-service (SaaS), that help our customers build networks, automate, orchestrate, integrate, and digitize data. We are shifting and expanding more of our business to software and subscriptions across our core networking portfolio. Our hardware and perpetual software in this category are distinct performance obligations where revenue is recognized upfront upon transfer of control. Term software licenses are multiple performance obligations where the term license is recognized upfront upon transfer of control with the associated software maintenance revenue recognized ratably over the contract term. SaaS arrangements in this category have one distinct performance obligation which is satisfied over time with revenue recognized ratably over the contract term.

Applications consists of offerings that utilize the core networking and data center platforms to provide their functions. The products consist primarily of software offerings, including software licenses and SaaS, as well as hardware. Our perpetual software and hardware in this category are distinct performance obligations where revenue is recognized upfront upon transfer of control. Term software licenses are multiple performance obligations where the term license is recognized upfront upon transfer of control with the associated software maintenance revenue recognized ratably over the contract term. SaaS arrangements in this category have one distinct performance obligation which is satisfied over time with revenue recognized ratably over the contract term.

Security primarily includes our unified threat management, advanced threat security, and web security products. These products consist of both hardware and software offerings, including software licenses and SaaS. Updates and upgrades for the term software licenses are critical for our software to perform its intended commercial purpose because of the continuous need for our software to secure our customers' network environments against frequent threats. Therefore, security software licenses are generally represented by a single distinct performance obligation with revenue recognized ratably over the contract term. Our hardware and perpetual software in this category are distinct performance obligations where revenue is recognized upfront upon transfer of control. SaaS arrangements in this category have one distinct performance obligation which is satisfied over time with revenue recognized ratably over the contract term.

Other Products primarily include our Service Provider Video Software Solutions and cloud and system management products. On May 1, 2018, we announced a definitive agreement to sell the SPVSS business. The sale closed on October 28, 2018. These products include both hardware and software licenses. Our offerings in this category are distinct performance obligations where revenue is recognized upfront upon transfer of control.

In addition to our product offerings, we provide a broad range of service and support options for our customers, including technical support services and advanced services. Technical support services represent the majority of these offerings which are distinct performance obligations that are satisfied over time with revenue recognized ratably over the contract term. Advanced services are distinct performance obligations that are satisfied over time with revenue recognized as services are delivered.

The sales arrangements as discussed above are typically made pursuant to customer purchase orders based on master purchase or partner agreements. Cash is received based on our standard payment terms which is typically 30 days. We provide financing arrangements to customers for all of our hardware, software and service offerings. Refer to Note 8 for additional information. For these arrangements, cash is typically received over time.

(b) Contract Balances

Accounts receivable, net was $3.7 billion as of January 26, 2019 compared to $5.6 billion as of July 28, 2018, as reported on the Consolidated Balance Sheet.

Contract assets consist of unbilled receivables and are recorded when revenue is recognized in advance of scheduled billings to our customers. These amounts are primarily related to software and service arrangements where transfer of control has occurred but we have not yet invoiced. As of January 26, 2019 and July 29, 2018, our contract assets for these unbilled receivables were $557 million and $122 million, respectively, and were included in other current assets and other assets.

Contract liabilities consist of deferred revenue. Deferred revenue was $17.3 billion as of January 26, 2019 compared to $19.7 billion as of July 28, 2018. In connection with the adoption of ASC 606, we recorded an adjustment to retained earnings to reduce deferred revenue by $2.8 billion. We recognized approximately $2.6 billion and $6.0 billion of revenue during the second quarter and first six months of fiscal 2019, respectively, that was included in the deferred revenue balance at July 29, 2018.

(c) Remaining Performance Obligations

Remaining Performance Obligations (RPO) are comprised of deferred revenue plus unbilled contract revenue. As of January 26, 2019, the aggregate amount of RPO was $22.5 billion, comprised of $17.3 billion of deferred revenue and $5.2 billion of unbilled contract revenue. We expect approximately 56% of this amount to be recognized as revenue over the next year. Unbilled contract revenue represents non-cancelable contracts for which we have not invoiced, have an obligation to perform, and revenue has not yet been recognized in the financial statements.

(d) Capitalized Contract Acquisition Costs

In connection with the adoption of ASC 606, we began to capitalize direct and incremental costs incurred to acquire contracts, primarily sales commissions, for which the associated revenue is expected to be recognized in future periods. We incur these costs in connection with both initial contracts and renewals. These costs are initially deferred and typically amortized over the term of the customer contract which corresponds to the period of benefit. Deferred sales commissions were $686 million and $644 million as of January 26, 2019 and July 29, 2018, respectively, and were included in other current assets and other assets. The amortization expense associated with these costs was $100 million and $212 million for the second quarter and first six months of fiscal 2019, respectively, and was included in sales and marketing expenses.

4. Acquisitions and Divestitures

We completed three acquisitions during the first six months of fiscal 2019. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Purchase Consideration	Net Tangible Assets Acquired (Liabilities	Purchased Intangible Assets	Goodwill

		Assumed)		
Duo	$ 2,025	$ (57)	$ 342	$ 1,740
Others (two in total)	60	3	8	49
Total	$ 2,085	$ (54)	$ 350	$ 1,789

On September 28, 2018, we completed our acquisition of privately held Duo Security, Inc. ("Duo"), a leading provider of unified access security and multi-factor authentication delivered through the cloud. Revenue from the Duo acquisition has been included in our Security product category.

The total purchase consideration related to acquisitions completed during the first six months of fiscal 2019 consisted of cash consideration. The total cash and cash equivalents acquired from these acquisitions was approximately $85 million. Total transaction costs related to acquisition and divestiture activities were $11 million and $14 million for the first six months of fiscal 2019 and fiscal 2018, respectively. These transaction costs were expensed as incurred in general and administrative expenses ("G&A") in the Consolidated Statements of Operations.

The goodwill generated from acquisitions completed during the first six months of fiscal 2019 is primarily related to expected synergies. The goodwill is generally not deductible for income tax purposes.

The Consolidated Financial Statements include the operating results of each acquisition from the date of acquisition. Pro forma results of operations and the revenue and net income subsequent to the acquisition date for the acquisitions completed during the first six months of fiscal 2019 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to our financial results.

Divestiture of Service Provider Video Software Solutions On October 28, 2018, we completed the sale of the Service Provider Video Software Solutions business. This business had tangible assets of approximately $160 million (primarily comprised of accounts receivables, inventories and various other current and long-term assets) and net intangible assets and goodwill (based on relative fair value) of $340 million. In addition, the business had total liabilities of approximately $200 million (primarily comprised of deferred revenue and various other current and long-term liabilities). We recognized an immaterial gain from this transaction in the second quarter of fiscal 2019.

We completed two divestitures during the second quarter of fiscal 2018. The financial statement impact of these divestitures was not material for the second quarter and first six months of fiscal 2018.

Acquisition of Luxtera On February 6, 2019, we completed our acquisition of Luxtera, Inc. ("Luxtera"), a semiconductor company, for total consideration of approximately $660 million in cash and assumed equity awards. Revenue from the Luxtera acquisition will be included in our Infrastructure Platforms product category. We expect that most of the purchase price will be allocated to goodwill and purchased intangible assets.

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5. Goodwill and Purchased Intangible Assets
(a) Goodwill
The following table presents the goodwill allocated to our reportable segments as of January 26, 2019 and during the first six months of fiscal 2019 (in millions):

	Balance at July 28, 2018	Acquisitions & Divestitures	Other	Balance at January 26, 2019
Americas	$19,998	$ 1,082	$(79)	$ 21,001
EMEA	7,529	429	(22)	7,936
APJC	4,179	190	(13)	4,356
Total	$31,706	$ 1,701	$(114)	$ 33,293

“Other” in the table above primarily consists of foreign currency translation as well as immaterial purchase accounting adjustments.
(b) Purchased Intangible Assets
The following table presents details of our intangible assets acquired through acquisitions completed during the first six months of fiscal 2019 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES	TOTAL
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D	
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Amount	Amount
Duo	5.0	$ 153	5.0	$ 94	2.5	$ 18	$ 77	$ 342
Others (two in total)	5.0	8	—	—	—	—	—	8
Total		$ 161		$ 94		$ 18	$ 77	$ 350

The following tables present details of our purchased intangible assets (in millions):

January 26, 2019	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$3,165	$ (1,620)	$1,545
Customer relationships	812	(292)	520
Other	55	(30)	25
Total purchased intangible assets with finite lives	4,032	(1,942)	2,090
In-process research and development, with indefinite lives	180	—	180
Total	$4,212	$ (1,942)	$2,270

July 28, 2018	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	$3,711	$ (1,888)	$1,823
Customer relationships	1,538	(937)	601

Other	63	(38)	25
Total purchased intangible assets with finite lives	5,312	(2,863)	2,449
In-process research and development, with indefinite lives	103	—	103
Total	$5,415	$ (2,863)	$2,552

Purchased intangible assets include intangible assets acquired through acquisitions as well as through direct purchases or licenses.

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There were no impairment charges related to purchased intangible assets for the second quarter and first six months of fiscal 2019 and for the corresponding periods of fiscal 2018. Impairment charges are primarily a result of declines in estimated fair values of certain purchased intangible assets resulting from the reduction or elimination of expected future cash flows associated with certain of our technology and in-process research and development (IPR&D) intangible assets.
The following table presents the amortization of purchased intangible assets, including impairment charges (in millions):

	Three Months Ended		Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Amortization of purchased intangible assets:				
Cost of sales	$156	$ 160	$307	$ 314
Operating expenses	39	60	73	121
Total	$195	$ 220	$380	$ 435

The estimated future amortization expense of purchased intangible assets with finite lives as of January 26, 2019 is as follows (in millions):

Fiscal Year	Amount
2019 (remaining six months)	$ 382
2020	$ 726
2021	$ 530
2022	$ 274
2023	$ 133
Thereafter	$ 45

6. Restructuring and Other Charges

We initiated a restructuring plan during fiscal 2018 (the "Fiscal 2018 Plan") in order to realign the organization and enable further investment in key priority areas with estimated pretax charges of approximately $600 million. These aggregate pretax charges are primarily cash-based and consist of employee severance and other one-time termination benefits, and other associated costs. In connection with the Fiscal 2018 Plan, we have incurred charges of $186 million and $264 million for the second quarter and first six months of fiscal 2019, respectively, and have incurred cumulative charges of $372 million. We expect the Fiscal 2018 Plan to be substantially completed in fiscal 2019.

We announced a restructuring plan in August 2016 (the "Fiscal 2017 Plan"), in order to reinvest in our key priority areas. In connection with the Fiscal 2017 Plan, we incurred cumulative charges of approximately $1.0 billion, which were primarily cash-based and consisted of employee severance and other one-time termination benefits, and other associated costs. We completed the Fiscal 2017 Plan in fiscal 2018.

The following tables summarize the activities related to the restructuring and other charges (in millions):

	FISCAL 2017 AND PRIOR PLANS		FISCAL 2018 PLAN		
	Employee Severance	Other	Employee Severance	Other	Total
Liability as of July 28, 2018	$41	$13	$19	$—	$73
Charges	—	(1)	222	43	264
Cash payments	(31)	(3)	(202)	(1)	(237)
Non-cash items	—	—	—	(42)	(42)
Liability as of January 26, 2019	$10	$9	$39	$—	$58

	FISCAL 2017 AND PRIOR PLANS		
	Employee Severance	Other	Total
Liability as of July 29, 2017	$74	$43	$117
Charges	223	27	250
Cash payments	(213)	(27)	(240)
Non-cash items	3	(18)	(15)
Liability as of January 27, 2018	$87	$25	$112

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7. Balance Sheet Details

The following tables provide details of selected balance sheet items (in millions):

	January 26, 2019	July 28, 2018
Cash and cash equivalents	$ 9,835	$ 8,934
Restricted cash included in other current assets	23	32
Restricted cash included in other assets	21	27
Total cash, cash equivalents, and restricted cash	$ 9,879	$ 8,993

Inventories:		
Raw materials	$468	$423
Finished goods:		
Deferred cost of sales and distributor inventory	74	443
Manufactured finished goods	908	689
Total finished goods	982	1,132
Service-related spares	228	258
Demonstration systems	23	33
Total	$1,701	$1,846

Property and equipment, net:		
Gross property and equipment:		
Land, buildings, and building and leasehold improvements	$4,731	$4,710
Computer equipment and related software	965	1,085
Production, engineering, and other equipment	5,616	5,734
Operating lease assets	529	356
Furniture and fixtures	369	358
Total gross property and equipment	12,210	12,243
Less: accumulated depreciation and amortization	(9,279)	(9,237)
Total	$2,931	$3,006

Deferred revenue:		
Service	$11,246	$11,431
Product	6,015	8,254
Total	$17,261	$19,685
Reported as:		
Current	$9,976	$11,490
Noncurrent	7,285	8,195
Total	$17,261	$19,685

8. Financing Receivables and Operating Leases

(a) Financing Receivables

Financing receivables primarily consist of lease receivables, loan receivables, and financed service contracts. Lease receivables represent sales-type and direct-financing leases resulting from the sale of Cisco's and complementary third-party products and are typically collateralized by a security interest in the underlying assets. Lease receivables consist of arrangements with terms of four years on average. Loan receivables represent financing arrangements related to the sale of our hardware, software, and services, which may include additional funding for other costs associated with network installation and integration of our products and services. Loan receivables generally have terms of up to three years. Financed service contracts include financing receivables related to technical support and advanced services. Revenue related to the technical support services is typically deferred and included in deferred service revenue and is recognized ratably over the period during which the related services are to be performed, which typically ranges from one to three years.

A summary of our financing receivables is presented as follows (in millions):

January 26, 2019	Lease Receivables	Loan Receivables	Financed Service Contracts	Total
Gross	$ 2,483	$ 4,926	$ 2,398	$ 9,807
Residual value	153	—	—	153
Unearned income	(138)	—	—	(138)
Allowance for credit loss	(127)	(64)	(9)	(200)
Total, net	$ 2,371	$ 4,862	$ 2,389	$ 9,622
Reported as:				
Current	$ 1,121	$ 2,502	$ 1,434	$ 5,057
Noncurrent	1,250	2,360	955	4,565
Total, net	$ 2,371	$ 4,862	$ 2,389	$ 9,622

July 28, 2018	Lease Receivables	Loan Receivables	Financed Service Contracts	Total
Gross	$ 2,688	$ 4,999	$ 2,326	$ 10,013
Residual value	164	—	—	164
Unearned income	(141)	—	—	(141)
Allowance for credit loss	(135)	(60)	(10)	(205)
Total, net	$ 2,576	$ 4,939	$ 2,316	$ 9,831
Reported as:				
Current	$ 1,249	$ 2,376	$ 1,324	$ 4,949
Noncurrent	1,327	2,563	992	4,882
Total, net	$ 2,576	$ 4,939	$ 2,316	$ 9,831

Future minimum lease payments to Cisco on lease receivables as of January 26, 2019 are summarized as follows (in millions):

Fiscal Year	Amount
2019 (remaining six months)	$ 637
2020	855
2021	532
2022	309
2023	126

Thereafter	24
Total	$ 2,483

Actual cash collections may differ from the contractual maturities due to early customer buyouts, refinancings, or defaults.

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(b) Credit Quality of Financing Receivables

Gross receivables, excluding residual value, less unearned income categorized by our internal credit risk rating as of January 26, 2019 and July 28, 2018 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING			
January 26, 2019	1 to 4	5 to 6	7 and Higher	Total
Lease receivables	$1,233	$1,066	$ 46	$2,345
Loan receivables	3,000	1,875	51	4,926
Financed service contracts	1,390	995	13	2,398
Total	$5,623	$3,936	$ 110	$9,669

	INTERNAL CREDIT RISK RATING			
July 28, 2018	1 to 4	5 to 6	7 and Higher	Total
Lease receivables	$1,294	$1,199	$ 54	$2,547
Loan receivables	3,184	1,752	63	4,999
Financed service contracts	1,468	835	23	2,326
Total	$5,946	$3,786	$ 140	$9,872

We determine the adequacy of our allowance for credit loss by assessing the risks and losses inherent in our financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by us to our customers, which consist of the following: lease receivables, loan receivables, and financed service contracts.

Our internal credit risk ratings of 1 through 4 correspond to investment-grade ratings, while credit risk ratings of 5 and 6 correspond to non-investment grade ratings. Credit risk ratings of 7 and higher correspond to substandard ratings.

The following tables present the aging analysis of gross receivables, excluding residual value and less unearned income as of January 26, 2019 and July 28, 2018 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
January 26, 2019	31-60	61-90	91+	Total Past Due	Current	Total	Nonaccrual Financing Receivables	Impaired Financing Receivables
Lease receivables	$79	$ 34	$152	$ 265	$2,080	$2,345	$ 3	$ 3
Loan receivables	73	39	235	347	4,579	4,926	28	28
Financed service contracts	74	38	280	392	2,006	2,398	2	2
Total	$226	$ 111	$667	$ 1,004	$8,665	$9,669	$ 33	$ 33

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)							
July 28, 2018	31-60	61-90	91+	Total Past Due	Current	Total	Nonaccrual Financing Receivables	Impaired Financing Receivables
Lease receivables	$72	$ 27	$155	$ 254	$2,293	$2,547	$ 9	$ 9
Loan receivables	104	55	252	411	4,588	4,999	30	30
Financed service contracts	138	78	304	520	1,806	2,326	3	3
Total	$314	$ 160	$711	$ 1,185	$8,687	$9,872	$ 42	$ 42

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables is presented by contract, and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The balances of either unbilled or current financing receivables included in the category of 91 days plus past due for financing receivables were $396 million and $503 million as of January 26, 2019 and July 28, 2018, respectively.

As of January 26, 2019, we had financing receivables of $247 million, net of unbilled or current receivables, that were in the category of 91 days plus past due but remained on accrual status as they are well secured and in the process of collection. Such balance was $182 million as of July 28, 2018.

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(c) Allowance for Credit Loss Rollforward

The allowances for credit loss and the related financing receivables are summarized as follows (in millions):

Three months ended January 26, 2019	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts	Total
Allowance for credit loss as of October 27, 2018	$131	$ 60	$ 8	$199
Provisions (benefits)	(4)	4	1	1
Allowance for credit loss as of January 26, 2019	$127	$ 64	$ 9	$200

Six months ended January 26, 2019	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts	Total
Allowance for credit loss as of July 28, 2018	$135	$ 60	$ 10	$205
Provisions (benefits)	(7)	4	(1)	(4)
Foreign exchange and other	(1)	—	—	(1)
Allowance for credit loss as of January 26, 2019	$127	$ 64	$ 9	$200

Three months ended January 27, 2018	CREDIT LOSS ALLOWANCES			
	Lease Receivables	Loan Receivables	Financed Service Contracts	Total
Allowance for credit loss as of October 28, 2017	$160	$ 106	$ 23	$289
Provisions (benefits)	3	(13)	(10)	(20)
Foreign exchange and other	2	1	—	3
Allowance for credit loss as of January 27, 2018	$165	$ 94	$ 13	$272

Six months ended January 27, 2018	CREDIT LOSS ALLOWANCES