
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended January 23, 2016

OR

☐ **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
(State or other jurisdiction of
incorporation or organization)

77-0059951
(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of the registrant's common stock outstanding as of February 12, 2016 : 5,032,121,234

Cisco Systems, Inc.
Form 10-Q for the Quarter Ended January 23, 2016

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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 23, 2016	July 25, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,314	\$ 6,877
Investments	54,061	53,539
Accounts receivable, net of allowance for doubtful accounts of \$325 at January 23, 2016 and \$302 at July 25, 2015	4,302	5,344
Inventories	1,362	1,627
Financing receivables, net	4,514	4,491
Deferred tax assets	2,834	2,915
Other current assets	1,618	1,490
Total current assets	75,005	76,283
Property and equipment, net	3,386	3,332
Financing receivables, net	3,903	3,858
Goodwill	24,958	24,469
Purchased intangible assets, net	2,322	2,376
Other assets	3,068	3,163
TOTAL ASSETS	\$ 112,642	\$ 113,481
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 3,008	\$ 3,897
Accounts payable	962	1,104
Income taxes payable	370	62
Accrued compensation	2,667	3,049
Deferred revenue	9,796	9,824
Other current liabilities	5,996	5,687
Total current liabilities	22,799	23,623
Long-term debt	21,591	21,457
Income taxes payable	706	1,876
Deferred revenue	5,389	5,359
Other long-term liabilities	1,279	1,459
Total liabilities	51,764	53,774
Commitments and contingencies (Note 12)		
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; 5,052 and 5,085 shares issued and outstanding at January 23, 2016 and July 25, 2015, respectively	43,857	43,592
Retained earnings	17,821	16,045
Accumulated other comprehensive income (loss)	(807)	61
Total Cisco shareholders' equity	60,871	59,698
Noncontrolling interests	7	9
Total equity	60,878	59,707
TOTAL LIABILITIES AND EQUITY	\$ 112,642	\$ 113,481

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
REVENUE:				
Product	\$ 8,983	\$ 9,078	\$ 18,827	\$ 18,513
Service	2,944	2,858	5,782	5,668
Total revenue	11,927	11,936	24,609	24,181
COST OF SALES:				
Product	3,480	3,806	7,333	7,725
Service	1,015	1,040	2,012	2,033
Total cost of sales	4,495	4,846	9,345	9,758
GROSS MARGIN	7,432	7,090	15,264	14,423
OPERATING EXPENSES:				
Research and development	1,509	1,529	3,069	3,112
Sales and marketing	2,286	2,308	4,729	4,823
General and administrative	176	490	715	994
Amortization of purchased intangible assets	71	72	140	143
Restructuring and other charges	96	69	238	387
Total operating expenses	4,138	4,468	8,891	9,459
OPERATING INCOME	3,294	2,622	6,373	4,964
Interest income	237	189	462	368
Interest expense	(162)	(139)	(321)	(278)
Other income (loss), net	(63)	201	(71)	179
Interest and other income (loss), net	12	251	70	269
INCOME BEFORE PROVISION FOR INCOME TAXES	3,306	2,873	6,443	5,233
Provision for income taxes	159	476	866	1,008
NET INCOME	\$ 3,147	\$ 2,397	\$ 5,577	\$ 4,225
Net income per share:				
Basic	\$ 0.62	\$ 0.47	\$ 1.10	\$ 0.83
Diluted	\$ 0.62	\$ 0.46	\$ 1.09	\$ 0.82
Shares used in per-share calculation:				
Basic	5,070	5,117	5,075	5,115
Diluted	5,097	5,160	5,106	5,159
Cash dividends declared per common share	\$ 0.21	\$ 0.19	\$ 0.42	\$ 0.38

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Net income	\$ 3,147	\$ 2,397	\$ 5,577	\$ 4,225
Available-for-sale investments:				
Change in net unrealized gains, net of tax benefit (expense) of \$149 and \$205 for the three and six months ended January 23, 2016, respectively, and \$9 and \$23 for the corresponding periods of fiscal 2015, respectively	(212)	30	(312)	8
Net (gains) losses reclassified into earnings, net of tax (benefit) expense of \$(7) for each of the three and six months ended January 23, 2016, and \$24 and \$26 for the corresponding periods of fiscal 2015, respectively	12	(45)	13	(50)
	(200)	(15)	(299)	(42)
Cash flow hedging instruments:				
Change in unrealized gains and losses, net of tax benefit (expense) of \$0 and \$2 for the three and six months ended January 23, 2016, respectively, and \$0 and \$3 for the corresponding periods of fiscal 2015, respectively	(20)	(75)	(22)	(128)
Net (gains) losses reclassified into earnings	5	26	8	30
	(15)	(49)	(14)	(98)
Net change in cumulative translation adjustment and actuarial gains and losses net of tax benefit (expense) of \$5 and \$(34) for the three and six months ended January 23, 2016, respectively, and \$26 and \$36 for the corresponding periods of fiscal 2015, respectively	(341)	(193)	(557)	(343)
Other comprehensive income (loss)	(556)	(257)	(870)	(483)
Comprehensive income	2,591	2,140	4,707	3,742
Comprehensive (income) loss attributable to noncontrolling interests	1	(8)	2	(8)
Comprehensive income attributable to Cisco Systems, Inc.	\$ 2,592	\$ 2,132	\$ 4,709	\$ 3,734

See Notes to Consolidated Financial Statements.

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

	Six Months Ended	
	January 23, 2016	January 24, 2015
Cash flows from operating activities:		
Net income	\$ 5,577	\$ 4,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and other	1,005	1,229
Share-based compensation expense	706	677
Provision for receivables	31	62
Deferred income taxes	274	385
Excess tax benefits from share-based compensation	(82)	(83)
(Gains) losses on divestitures, investments and other, net	(260)	(182)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	988	501
Inventories	153	(340)
Financing receivables	(171)	74
Other assets	(181)	(223)
Accounts payable	(147)	(32)
Income taxes, net	(764)	(528)
Accrued compensation	(348)	(390)
Deferred revenue	69	26
Other liabilities	(162)	(27)
Net cash provided by operating activities	6,688	5,374
Cash flows from investing activities:		
Purchases of investments	(19,089)	(20,061)
Proceeds from sales of investments	10,247	9,948
Proceeds from maturities of investments	7,955	7,212
Acquisition of businesses, net of cash and cash equivalents acquired	(1,089)	(217)
Proceeds from business divestiture	372	—
Purchases of investments in privately held companies	(166)	(91)
Return of investments in privately held companies	35	227
Acquisition of property and equipment	(576)	(550)
Proceeds from sales of property and equipment	11	5
Other	(87)	(109)
Net cash used in investing activities	(2,387)	(3,636)
Cash flows from financing activities:		
Issuances of common stock	701	1,162
Repurchases of common stock — repurchase program	(2,344)	(2,196)
Shares repurchased for tax withholdings on vesting of restricted stock units	(412)	(369)
Short-term borrowings, original maturities less than 90 days, net	(4)	(4)
Repayments of debt	(862)	(506)
Excess tax benefits from share-based compensation	82	83
Dividends paid	(2,133)	(1,947)
Other	108	110
Net cash used in financing activities	(4,864)	(3,667)
Net decrease in cash and cash equivalents	(563)	(1,929)
Cash and cash equivalents, beginning of period	6,877	6,726
Cash and cash equivalents, end of period	\$ 6,314	\$ 4,797
Supplemental cash flow information:		
Cash paid for interest	\$ 426	\$ 383

Cash paid for income taxes, net	\$	1,355	\$	1,152
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See Notes to Consolidated Financial Statements.

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

	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 25, 2015	5,085	\$ 43,592	\$ 16,045	\$ 61	\$ 59,698	\$ 9	\$ 59,707
Net income			5,577		5,577		5,577
Other comprehensive income (loss)				(868)	(868)	(2)	(870)
Issuance of common stock	76	701			701		701
Repurchase of common stock	(93)	(801)	(1,668)		(2,469)		(2,469)
Shares repurchased for tax withholdings on vesting of restricted stock units	(16)	(412)			(412)		(412)
Cash dividends declared (\$0.42 per common share)			(2,133)		(2,133)		(2,133)
Tax effects from employee stock incentive plans		28			28		28
Share-based compensation expense		706			706		706
Purchase acquisitions		43			43		43
BALANCE AT JANUARY 23, 2016	5,052	\$ 43,857	\$ 17,821	\$ (807)	\$ 60,871	\$ 7	\$ 60,878

	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 26, 2014	5,107	\$ 41,884	\$ 14,093	\$ 677	\$ 56,654	\$ 7	\$ 56,661
Net income			4,225		4,225		4,225
Other comprehensive income (loss)				(491)	(491)	8	(483)
Issuance of common stock	100	1,162			1,162		1,162
Repurchase of common stock	(85)	(697)	(1,524)		(2,221)		(2,221)
Shares repurchased for tax withholdings on vesting of restricted stock units	(15)	(369)			(369)		(369)
Cash dividends declared (\$0.38 per common share)			(1,947)		(1,947)		(1,947)
Tax effects from employee stock incentive plans		25			25		25
Share-based compensation expense		677			677		677
Purchase acquisitions		3			3		3
BALANCE AT JANUARY 24, 2015	5,107	\$ 42,685	\$ 14,847	\$ 186	\$ 57,718	\$ 15	\$ 57,733

Supplemental Information

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 23, 2016, the Company's Board of Directors had authorized an aggregate repurchase of up to \$97 billion of common stock under this program with no termination date. On February 10, 2016, the Company's Board of Directors authorized a \$15 billion increase to the stock repurchase program with no termination date. The stock repurchases since the inception of this program and the related impacts on Cisco shareholders' equity are summarized in the following table (in millions):

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Total Cisco Shareholders' Equity
Repurchases of common stock under the repurchase program	4,536	\$ 23,416	\$ 71,732	\$ 95,148

See Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The fiscal year for Cisco Systems, Inc. (the “Company” or “Cisco”) is the 52 or 53 weeks ending on the last Saturday in July. Fiscal 2016 is a 53-week fiscal year and fiscal 2015 was a 52-week fiscal year. The Consolidated Financial Statements include the accounts of Cisco and its subsidiaries. All intercompany accounts and transactions have been eliminated. The Company conducts business globally and is 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).

The accompanying financial data as of January 23, 2016 and for the three and six months ended January 23, 2016 and January 24, 2015 has been prepared by the Company, 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 25, 2015 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, the Company believes 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 the Company’s Annual Report on Form 10-K for the fiscal year ended July 25, 2015 .

The Company consolidates its investments in a venture fund managed by SOFTBANK Corp. and its affiliates (“SOFTBANK”) as this is a variable interest entity and the Company is the primary beneficiary. The noncontrolling interests attributed to SOFTBANK are presented as a separate component from the Company’s equity in the equity section of the Consolidated Balance Sheets. SOFTBANK’s share of the earnings in the venture fund 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 23, 2016 ; the results of operations and the statements of comprehensive income for the three and six months ended January 23, 2016 and January 24, 2015 ; and the statements of cash flows and equity for the six months ended January 23, 2016 and January 24, 2015 , as applicable, have been made. The results of operations for the three and six months ended January 23, 2016 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. The Company has evaluated subsequent events through the date that the financial statements were issued.

2. Recent Accounting Pronouncements

Recent Accounting Standards or Updates Not Yet Effective In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update related to revenue from contracts with customers, which will supersede nearly all current U.S. GAAP guidance on this topic and eliminate industry-specific guidance. The underlying principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This accounting standard update, as amended, will be effective for the Company beginning in the first quarter of fiscal 2019. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. Early adoption is permitted, but no earlier than fiscal 2018. The Company is currently evaluating the timing of its adoption and impact of this accounting standard update on its Consolidated Financial Statements.

In February 2015, the FASB issued an accounting standard update that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2017, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

In November 2015, the FASB issued an accounting standard update that requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018, and early adoption is permitted. The accounting standard update is a change in balance sheet presentation only.

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

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 accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

3. Acquisitions and Divestitures

The Company completed seven acquisitions during the six months ended January 23, 2016. A summary of the allocation of the total purchase consideration is presented as follows (in millions):

	Purchase Consideration	Net Liabilities Assumed	Purchased Intangible Assets	Goodwill
MaintenanceNet	\$ 105	\$ (21)	\$ 65	\$ 61
OpenDNS	545	(9)	61	493
Lancope	410	(34)	121	323
Others (four in total)	108	(17)	62	63
Total	\$ 1,168	\$ (81)	\$ 309	\$ 940

On August 6, 2015, the Company completed its acquisition of privately held MaintenanceNet, Inc. ("MaintenanceNet"), a provider of a cloud-based software platform that uses data analytics and automation to manage renewals of recurring customer contracts. This acquisition is a component of the Company's strategy for its Services organization to simplify and digitize its business processes.

On August 26, 2015, the Company completed its acquisition of privately held OpenDNS, Inc. ("OpenDNS"), a provider of advanced threat protection for endpoint devices. With the OpenDNS acquisition, the Company aims to strengthen its security offerings by adding broad visibility and threat intelligence delivered through a software-as-a-service platform. Revenue from the OpenDNS acquisition has been included in the Company's Security product category.

On December 21, 2015, the Company completed its acquisition of privately held Lancope, Inc. ("Lancope"), a provider of network behavior analytics, threat visibility and security intelligence. With the Lancope acquisition, the Company aims to advance its "security everywhere" strategy with an additional capability of network behavior analytics that extend protection further into the network. Revenue from the Lancope acquisition has been included in the Company's Security product category.

The total purchase consideration related to the Company's acquisitions completed during the six months ended January 23, 2016 consisted of cash consideration and the assumption of vested share-based awards. The total cash and cash equivalents acquired from these business combinations was approximately \$10 million. Total transaction costs related to the Company's acquisition activities were \$14 million and \$5 million for the six months ended January 23, 2016 and January 24, 2015, respectively. These transaction costs were expensed as incurred in general and administrative expenses ("G&A") in the Consolidated Statements of Operations.

The Company's purchase price allocation for acquisitions completed during recent periods is preliminary and subject to revision as additional information about fair value of assets and liabilities becomes available. Additional information that existed as of the acquisition date but at that time was unknown to the Company may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

The goodwill generated from the Company's acquisitions completed during the six months ended January 23, 2016 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 for the acquisitions completed during the six months ended January 23, 2016 have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's financial results.

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

Acquisition of Acano On January 29, 2016, the Company completed its acquisition of privately held Acano Limited ("Acano"), a collaboration infrastructure and conferencing software provider. Under the terms of the agreement, the Company paid approximately \$550 million in cash and share-based awards assumed to acquire Acano. With the Acano acquisition, the Company aims to enhance its collaboration strategy to deliver video across both cloud and hybrid environments. Revenue from the Acano acquisition will be included in the Company's Collaboration product category. The Company expects that most of the purchase price will be allocated to goodwill and purchased intangible assets.

Pending Acquisition of Jasper On February 3, 2016, the Company announced its intent to acquire privately held Jasper Technologies, Inc. ("Jasper"), a provider of a cloud-based Internet of Things (IoT) software-as-a-service platform to help enterprises and service providers launch, manage and monetize IoT services on a global scale. Under the terms of the agreement, the Company will pay approximately \$1.4 billion in cash and share-based awards assumed to acquire Jasper. With the Jasper acquisition, the Company aims to offer a complete IoT solution that is interoperable across devices and works with IoT service providers, application developers and an ecosystem of partners.

Divestiture of SP Video CPE Business On November 20, 2015, the Company completed the sale of the assets comprising the customer premises equipment portion of its Service Provider Video connected devices business ("SP Video CPE Business") to Technicolor SA. As a result of the transaction, the Company received aggregate consideration of \$542 million consisting of \$372 million in cash and \$170 million in Technicolor stock (as of the divestiture date) and the transaction resulted in a gain of \$286 million, net of certain transaction costs incurred in prior periods.

4. Goodwill and Purchased Intangible Assets

(a) Goodwill

The following table presents the goodwill allocated to the Company's reportable segments as of and during the six months ended January 23, 2016 (in millions):

	Balance at July 25, 2015	Acquisitions	Divestiture	Other	Balance at January 23, 2016
Americas	\$ 15,212	\$ 672	\$ (126)	\$ (194)	\$ 15,564
EMEA	5,791	195	(12)	(73)	5,901
APJC	3,466	73	(3)	(43)	3,493
Total	\$ 24,469	\$ 940	\$ (141)	\$ (310)	\$ 24,958

"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 the Company's intangible assets acquired through acquisitions completed during the six months ended January 23, 2016 (in millions, except years):

	FINITE LIVES						INDEFINITE LIVES	
	TECHNOLOGY		CUSTOMER RELATIONSHIPS		OTHER		IPR&D	TOTAL
	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Weighted-Average Useful Life (in Years)	Amount	Amount	Amount
MaintenanceNet	5.0	\$ 50	5.0	\$ 2	2.0	\$ 2	\$ 11	\$ 65
OpenDNS	5.0	43	7.0	15	1.0	2	1	61
Lancope	5.0	79	6.0	29	3.0	3	10	121
Others (four in total)	4.2	56	6.3	6	0.0	—	—	62
Total		\$ 228		\$ 52		\$ 7	\$ 22	\$ 309

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

The following tables present details of the Company's purchased intangible assets (in millions):

<u>January 23, 2016</u>	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 2,842	\$ (1,232)	\$ 1,610
Customer relationships	1,740	(1,093)	647
Other	61	(31)	30
Total purchased intangible assets with finite lives	4,643	(2,356)	2,287
In-process research and development, with indefinite lives	35	—	35
Total	<u>\$ 4,678</u>	<u>\$ (2,356)</u>	<u>\$ 2,322</u>

<u>July 25, 2015</u>	Gross	Accumulated Amortization	Net
Purchased intangible assets with finite lives:			
Technology	\$ 3,418	\$ (1,818)	\$ 1,600
Customer relationships	1,699	(971)	728
Other	55	(24)	31
Total purchased intangible assets with finite lives	5,172	(2,813)	2,359
In-process research and development, with indefinite lives	17	—	17
Total	<u>\$ 5,189</u>	<u>\$ (2,813)</u>	<u>\$ 2,376</u>

Purchased intangible assets include intangible assets acquired through acquisitions as well as through direct purchases or licenses. In fiscal 2015, the Company, along with a number of other companies, entered into an agreement to obtain a license to the patents owned by the Rockstar Consortium, and the Company paid approximately \$300 million, of which \$188 million was expensed to product cost of sales in the first quarter of fiscal 2015 related to the settlement of patent infringement claims, and the remainder was capitalized as an intangible asset to be amortized over its estimated useful life.

Impairment charges related to purchased intangible assets for the three and six months ended January 23, 2016 and January 24, 2015 were approximately \$37 million and \$56 million, respectively.

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

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Amortization of purchased intangible assets:				
Cost of sales	\$ 139	\$ 242	\$ 285	\$ 431
Operating expenses	71	72	140	143
Total	<u>\$ 210</u>	<u>\$ 314</u>	<u>\$ 425</u>	<u>\$ 574</u>

The estimated future amortization expense of purchased intangible assets with finite lives as of January 23, 2016 is as follows (in millions):

<u>Fiscal Year</u>	Amount
2016 (remaining six months)	\$ 386
2017	663
2018	519
2019	435
2020	209
Thereafter	75
Total	<u>\$ 2,287</u>

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

5. Restructuring and Other Charges

Fiscal 2015 Plan The Company announced a restructuring action in August 2014 (the "Fiscal 2015 Plan"), in order to realign its workforce towards key growth areas of its business such as data center, software, security, and cloud. The Company's aggregate pre-tax estimated charges pursuant to the restructuring plan are expected to be approximately \$750 million, consisting of severance and other one-time termination benefits and other associated costs, and the Company has incurred cumulative charges of approximately \$725 million in connection with this plan, which is substantially complete. The Company incurred charges of \$95 million, net of a \$1 million credit to cost of sales, and \$69 million for the three months ended January 23, 2016 and January 24, 2015, respectively, and \$236 million, net of a \$2 million credit to cost of sales, and \$387 million for the six months ended January 23, 2016 and January 24, 2015, respectively.

Fiscal 2014 Plan In connection with a restructuring action announced in August 2013 (the "Fiscal 2014 Plan"), the Company incurred cumulative charges of approximately \$418 million. The Company completed the Fiscal 2014 Plan at the end of fiscal 2014.

The following table summarizes the activities related to the restructuring and other charges as discussed above (in millions):

	FISCAL 2014 PLAN		FISCAL 2015 PLAN		Total
	Employee Severance	Other	Employee Severance	Other	
Liability as of July 25, 2015	\$ 11	\$ 14	\$ 49	\$ 15	\$ 89
Charges	—	—	206	32	238
Cash payments	(10)	(2)	(177)	(8)	(197)
Non-cash items	—	—	—	(21)	(21)
Liability as of January 23, 2016	<u>\$ 1</u>	<u>\$ 12</u>	<u>\$ 78</u>	<u>\$ 18</u>	<u>\$ 109</u>

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

6. Balance Sheet Details

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

	January 23, 2016	July 25, 2015
Inventories:		
Raw materials	\$ 99	\$ 114
Work in process	1	2
Finished goods:		
Distributor inventory and deferred cost of sales	564	610
Manufactured finished goods	446	593
Total finished goods	1,010	1,203
Service-related spares	224	258
Demonstration systems	28	50
Total	\$ 1,362	\$ 1,627
Property and equipment, net:		
Gross property and equipment:		
Land, buildings, and building and leasehold improvements	\$ 4,573	\$ 4,495
Computer equipment and related software	1,344	1,310
Production, engineering, and other equipment	5,640	5,753
Operating lease assets	324	372
Furniture and fixtures	501	497
Total gross property and equipment	12,382	12,427
Less: accumulated depreciation and amortization	(8,996)	(9,095)
Total	\$ 3,386	\$ 3,332
Other assets:		
Deferred tax assets	\$ 1,371	\$ 1,648
Investments in privately held companies	964	897
Other	733	618
Total	\$ 3,068	\$ 3,163
Deferred revenue:		
Service	\$ 9,657	\$ 9,757
Product:		
Unrecognized revenue on product shipments and other deferred revenue	4,974	4,766
Cash receipts related to unrecognized revenue from two-tier distributors	554	660
Total product deferred revenue	5,528	5,426
Total	\$ 15,185	\$ 15,183
Reported as:		
Current	\$ 9,796	\$ 9,824
Noncurrent	5,389	5,359
Total	\$ 15,185	\$ 15,183

CISCO SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Financing Receivables and Operating Leases

(a) Financing Receivables

Financing receivables primarily consist of lease receivables, loan receivables, and financed service contracts and other. Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company's and complementary third-party products and are typically collateralized by a security interest in the underlying assets. Loan receivables represent financing arrangements related to the sale of the Company's products and services, which may include additional funding for other costs associated with network installation and integration of the Company's products and services. Lease receivables consist of arrangements with terms of four years on average, while loan receivables generally have terms of up to three years. The financed service contracts and other category includes financing receivables related to technical support and advanced services, as well as receivables related to financing of certain indirect costs associated with leases. 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 the Company's financing receivables is presented as follows (in millions):

<u>January 23, 2016</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Gross	\$ 3,176	\$ 2,177	\$ 3,405	\$ 8,758
Residual value	201	—	—	201
Unearned income	(177)	—	—	(177)
Allowance for credit loss	(248)	(80)	(37)	(365)
Total, net	\$ 2,952	\$ 2,097	\$ 3,368	\$ 8,417
Reported as:				
Current	\$ 1,460	\$ 978	\$ 2,076	\$ 4,514
Noncurrent	1,492	1,119	1,292	3,903
Total, net	\$ 2,952	\$ 2,097	\$ 3,368	\$ 8,417

<u>July 25, 2015</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Gross	\$ 3,361	\$ 1,763	\$ 3,573	\$ 8,697
Residual value	224	—	—	224
Unearned income	(190)	—	—	(190)
Allowance for credit loss	(259)	(87)	(36)	(382)
Total, net	\$ 3,136	\$ 1,676	\$ 3,537	\$ 8,349
Reported as:				
Current	\$ 1,468	\$ 856	\$ 2,167	\$ 4,491
Noncurrent	1,668	820	1,370	3,858
Total, net	\$ 3,136	\$ 1,676	\$ 3,537	\$ 8,349

As of January 23, 2016 and July 25, 2015, the deferred service revenue related to "Financed Service Contracts and Other" was \$1,714 million and \$1,853 million, respectively.

Future minimum lease payments at January 23, 2016 are summarized as follows (in millions):

<u>Fiscal Year</u>	Amount
2016 (remaining six months)	\$ 822
2017	1,234
2018	693
2019	316
2020	104
Thereafter	7
Total	\$ 3,176

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(b) Credit Quality of Financing Receivables

Gross receivables, excluding residual value, less unearned income categorized by the Company's internal credit risk rating as of January 23, 2016 and July 25, 2015 are summarized as follows (in millions):

	INTERNAL CREDIT RISK RATING			
	1 to 4	5 to 6	7 and Higher	Total
<u>January 23, 2016</u>				
Lease receivables	\$ 1,640	\$ 1,245	\$ 114	\$ 2,999
Loan receivables	1,224	811	142	2,177
Financed service contracts and other	2,156	1,204	45	3,405
Total	<u>\$ 5,020</u>	<u>\$ 3,260</u>	<u>\$ 301</u>	<u>\$ 8,581</u>
	INTERNAL CREDIT RISK RATING			
	1 to 4	5 to 6	7 and Higher	Total
<u>July 25, 2015</u>				
Lease receivables	\$ 1,688	\$ 1,342	\$ 141	\$ 3,171
Loan receivables	788	823	152	1,763
Financed service contracts and other	2,133	1,389	51	3,573
Total	<u>\$ 4,609</u>	<u>\$ 3,554</u>	<u>\$ 344</u>	<u>\$ 8,507</u>

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

The Company's 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.

In circumstances when collectibility is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company's revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of January 23, 2016 and July 25, 2015 were \$2,097 million and \$2,253 million, respectively, and they were associated with total financing receivables before allowance for credit loss of \$8,782 million and \$8,731 million as of their respective period ends.

The following tables present the aging analysis of gross receivables, excluding residual value and less unearned income as of January 23, 2016 and July 25, 2015 (in millions):

	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)				Current	Total	Nonaccrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+	Total Past Due				
<u>January 23, 2016</u>								
Lease receivables	\$ 93	\$ 41	\$ 176	\$ 310	\$ 2,689	\$ 2,999	\$ 71	\$ 64
Loan receivables	91	40	48	179	1,998	2,177	43	43
Financed service contracts and other	245	45	171	461	2,944	3,405	29	9
Total	<u>\$ 429</u>	<u>\$ 126</u>	<u>\$ 395</u>	<u>\$ 950</u>	<u>\$ 7,631</u>	<u>\$ 8,581</u>	<u>\$ 143</u>	<u>\$ 116</u>
	DAYS PAST DUE (INCLUDES BILLED AND UNBILLED)				Current	Total	Nonaccrual Financing Receivables	Impaired Financing Receivables
	31-60	61-90	91+	Total Past Due				
<u>July 25, 2015</u>								
Lease receivables	\$ 90	\$ 27	\$ 185	\$ 302	\$ 2,869	\$ 3,171	\$ 73	\$ 73
Loan receivables	21	3	25	49	1,714	1,763	32	32
Financed service contracts and other	396	152	414	962	2,611	3,573	29	9
Total	<u>\$ 507</u>	<u>\$ 182</u>	<u>\$ 624</u>	<u>\$ 1,313</u>	<u>\$ 7,194</u>	<u>\$ 8,507</u>	<u>\$ 134</u>	<u>\$ 114</u>

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

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of either unbilled or current financing receivables included in the category of 91 days plus past due for financing receivables were \$177 million and \$496 million as of January 23, 2016 and July 25, 2015, respectively.

As of January 23, 2016, the Company had financing receivables of \$187 million, net of unbilled or current receivables from the same contract, 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 \$70 million as of July 25, 2015.

(c) Allowance for Credit Loss Rollforward

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

CREDIT LOSS ALLOWANCES				
<u>Three months ended January 23, 2016</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of October 24, 2015	\$ 255	\$ 90	\$ 33	\$ 378
Provisions	(4)	(10)	5	(9)
Recoveries (write-offs), net	—	—	(1)	(1)
Foreign exchange and other	(3)	—	—	(3)
Allowance for credit loss as of January 23, 2016	\$ 248	\$ 80	\$ 37	\$ 365

CREDIT LOSS ALLOWANCES				
<u>Six months ended January 23, 2016</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 25, 2015	\$ 259	\$ 87	\$ 36	\$ 382
Provisions	(4)	(6)	5	(5)
Recoveries (write-offs), net	(4)	—	(4)	(8)
Foreign exchange and other	(3)	(1)	—	(4)
Allowance for credit loss as of January 23, 2016	\$ 248	\$ 80	\$ 37	\$ 365

CREDIT LOSS ALLOWANCES				
<u>Three months ended January 24, 2015</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of October 25, 2014	\$ 248	\$ 84	\$ 36	\$ 368
Provisions	7	3	4	14
Recoveries (write-offs), net	(1)	—	—	(1)
Foreign exchange and other	(4)	(2)	—	(6)
Allowance for credit loss as of January 24, 2015	\$ 250	\$ 85	\$ 40	\$ 375

CREDIT LOSS ALLOWANCES				
<u>Six months ended January 24, 2015</u>	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 26, 2014	\$ 233	\$ 98	\$ 18	\$ 349
Provisions	29	(10)	23	42
Recoveries (write-offs), net	(5)	1	—	(4)
Foreign exchange and other	(7)	(4)	(1)	(12)
Allowance for credit loss as of January 24, 2015	\$ 250	\$ 85	\$ 40	\$ 375

The Company assesses the allowance for credit loss related to financing receivables on either an individual or a collective basis. The Company considers various factors in evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis. These factors include the Company's historical experience, credit quality and age of the receivable balances, and economic conditions that may affect a customer's ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including

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any accrued interest, will be assessed and fully reserved at the customer level. The Company's internal credit risk ratings are categorized as 1 through 10 , with the lowest credit risk rating representing the highest quality financing receivables.

Typically, the Company also considers receivables with a risk rating of 8 or higher to be impaired and will include them in the individual assessment for allowance. These balances, as of January 23, 2016 and July 25, 2015 , are presented under "(b) Credit Quality of Financing Receivables" above.

The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. When evaluating the financing receivables on a collective basis, the Company uses expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk, and correlation.

(d) Operating Leases

The Company provides financing of certain equipment through operating leases, and the amounts are included in property and equipment in the Consolidated Balance Sheets. Amounts relating to equipment on operating lease assets and the associated accumulated depreciation are summarized as follows (in millions):

	January 23, 2016	July 25, 2015
Operating lease assets	\$ 324	\$ 372
Accumulated depreciation	(181)	(205)
Operating lease assets, net	\$ 143	\$ 167

Minimum future rentals on noncancelable operating leases at January 23, 2016 were approximately \$0.1 billion for the remaining six months of fiscal 2016 , \$0.1 billion for fiscal 2017 , and less than \$0.1 billion per year for each of fiscal 2018 through fiscal 2020 .

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8. Investments
(a) Summary of Available-for-Sale Investments

The following tables summarize the Company's available-for-sale investments (in millions):

<u>January 23, 2016</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	\$ 28,242	\$ 18	\$ (16)	\$ 28,244
U.S. government agency securities	3,492	3	(2)	3,493
Non-U.S. government and agency securities	1,152	1	(1)	1,152
Corporate debt securities	18,410	29	(158)	18,281
U.S. agency mortgage-backed securities	1,452	9	(1)	1,460
Total fixed income securities	52,748	60	(178)	52,630
Publicly traded equity securities	1,318	176	(63)	1,431
Total	\$ 54,066	\$ 236	\$ (241)	\$ 54,061

<u>July 25, 2015</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. government securities	\$ 29,904	\$ 41	\$ (6)	\$ 29,939
U.S. government agency securities	3,662	2	(1)	3,663
Non-U.S. government and agency securities	1,128	1	(1)	1,128
Corporate debt securities	15,802	34	(53)	15,783
U.S. agency mortgage-backed securities	1,456	8	(3)	1,461
Total fixed income securities	51,952	86	(64)	51,974
Publicly traded equity securities	1,092	480	(7)	1,565
Total	\$ 53,044	\$ 566	\$ (71)	\$ 53,539

Non-U.S. government and agency securities include agency and corporate debt securities that are guaranteed by non-U.S. governments.

(b) Gains and Losses on Available-for-Sale Investments

The following table presents the gross realized gains and gross realized losses related to the Company's available-for-sale investments (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Gross realized gains	\$ 16	\$ 92	\$ 51	\$ 113
Gross realized losses	(35)	(23)	(71)	(37)
Total	\$ (19)	\$ 69	\$ (20)	\$ 76

The following table presents the realized net gains (losses) related to the Company's available-for-sale investments by security type (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Net gains/(losses) on investments in publicly traded equity securities	\$ 2	\$ 60	\$ (7)	\$ 56
Net gains/(losses) on investments in fixed income securities	(21)	9	(13)	20
Total	\$ (19)	\$ 69	\$ (20)	\$ 76

For the three and six months ended January 23, 2016, the realized net losses related to the Company's available-for-sale investments included impairment charges of \$3 million for fixed income securities, due to a decline in the fair value of those securities below

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their cost basis that were determined to be other than temporary. There were no impairment charges on available-for-sale investments for the corresponding periods in fiscal 2015.

The following tables present the breakdown of the available-for-sale investments with gross unrealized losses and the duration that those losses had been unrealized at January 23, 2016 and July 25, 2015 (in millions):

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>January 23, 2016</u>						
Fixed income securities:						
U.S. government securities	\$ 15,432	\$ (16)	\$ 3	\$ —	\$ 15,435	\$ (16)
U.S. government agency securities	1,793	(2)	—	—	1,793	(2)
Non-U.S. government and agency securities	645	(1)	17	—	662	(1)
Corporate debt securities	11,565	(136)	1,252	(22)	12,817	(158)
U.S. agency mortgage-backed securities	387	(1)	—	—	387	(1)
Total fixed income securities	29,822	(156)	1,272	(22)	31,094	(178)
Publicly traded equity securities	694	(62)	2	(1)	696	(63)
Total	\$ 30,516	\$ (218)	\$ 1,274	\$ (23)	\$ 31,790	\$ (241)

	UNREALIZED LOSSES LESS THAN 12 MONTHS		UNREALIZED LOSSES 12 MONTHS OR GREATER		TOTAL	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>July 25, 2015</u>						
Fixed income securities:						
U.S. government securities	\$ 6,412	\$ (6)	\$ —	\$ —	\$ 6,412	\$ (6)
U.S. government agency securities	1,433	(1)	—	—	1,433	(1)
Non-U.S. government and agency securities	515	(1)	4	—	519	(1)
Corporate debt securities	9,552	(49)	312	(4)	9,864	(53)
U.S. agency mortgage-backed securities	579	(3)	—	—	579	(3)
Total fixed income securities	18,491	(60)	316	(4)	18,807	(64)
Publicly traded equity securities	108	(7)	2	—	110	(7)
Total	\$ 18,599	\$ (67)	\$ 318	\$ (4)	\$ 18,917	\$ (71)

As of January 23, 2016, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of January 23, 2016, the Company anticipates that it will recover the entire amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the six months ended January 23, 2016.

The Company has evaluated its publicly traded equity securities as of January 23, 2016 and has determined that there was no indication of other-than-temporary impairments in the respective categories of unrealized losses. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

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(c) Maturities of Fixed Income Securities

The following table summarizes the maturities of the Company's fixed income securities at January 23, 2016 (in millions):

	Amortized Cost	Fair Value
Less than 1 year	\$ 17,569	\$ 17,555
Due in 1 to 2 years	16,105	16,081
Due in 2 to 5 years	17,423	17,345
Due after 5 years	1,651	1,649
Total	<u>\$ 52,748</u>	<u>\$ 52,630</u>

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments.

(d) Securities Lending

The Company periodically engages in securities lending activities with certain of its available for sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for each of the six months ended January 23, 2016 and January 24, 2015 was \$0.6 billion. The Company requires collateral equal to at least 102% of the fair market value of the loaned security and that the collateral be in the form of cash or liquid, high-quality assets. The Company engages in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify the Company against collateral losses. The Company did not experience any losses in connection with the secured lending of securities during the periods presented. As of January 23, 2016 and July 25, 2015, the Company had no outstanding securities lending transactions.

(e) Investments in Privately Held Companies

The carrying value of the Company's investments in privately held companies was included in other assets. For such investments that were accounted for under the equity and cost method as of January 23, 2016 and July 25, 2015, the amounts are summarized in the following table (in millions):

	January 23, 2016	July 25, 2015
Equity method investments	\$ 605	\$ 578
Cost method investments	359	319
Total	<u>\$ 964</u>	<u>\$ 897</u>

For additional information on impairment charges related to investments in privately held companies, see Note 9.

Variable Interest Entities In the ordinary course of business, the Company has investments in privately held companies and provides financing to certain customers. These privately held companies and customers may be considered to be variable interest entities. The Company evaluates on an ongoing basis its investments in these privately held companies and its customer financings and has determined that as of January 23, 2016, except as disclosed herein, there were no variable interest entities required to be consolidated in the Company's Consolidated Financial Statements.

9. Fair Value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

(a) Fair Value Hierarchy

The accounting guidance for fair value measurement requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within

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the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

(b) Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of January 23, 2016 and July 25, 2015 were as follows (in millions):

	JANUARY 23, 2016 FAIR VALUE MEASUREMENTS				JULY 25, 2015 FAIR VALUE MEASUREMENTS			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
Assets:								
Cash equivalents:								
Money market funds	\$ 4,731	\$ —	\$ —	\$ 4,731	\$ 5,336	\$ —	\$ —	\$ 5,336
Corporate debt securities	—	9	—	9	—	14	—	14
U.S. government securities	—	31	—	31	—	—	—	—
Available-for-sale investments:								
U.S. government securities	—	28,244	—	28,244	—	29,939	—	29,939
U.S. government agency securities	—	3,493	—	3,493	—	3,663	—	3,663
Non-U.S. government and agency securities	—	1,152	—	1,152	—	1,128	—	1,128
Corporate debt securities	—	18,281	—	18,281	—	15,783	—	15,783
U.S. agency mortgage-backed securities	—	1,460	—	1,460	—	1,461	—	1,461
Publicly traded equity securities	1,431	—	—	1,431	1,565	—	—	1,565
Derivative assets	—	318	3	321	—	214	4	218
Total	\$ 6,162	\$ 52,988	\$ 3	\$ 59,153	\$ 6,901	\$ 52,202	\$ 4	\$ 59,107
Liabilities:								
Derivative liabilities	\$ —	\$ 19	\$ —	\$ 19	\$ —	\$ 12	\$ —	\$ 12
Total	\$ —	\$ 19	\$ —	\$ 19	\$ —	\$ 12	\$ —	\$ 12

Level 1 publicly traded equity securities are determined by using quoted prices in active markets for identical assets. Level 2 fixed income securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets and liabilities. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs. The Company is ultimately responsible for the financial statements and underlying estimates. The Company's derivative instruments are primarily classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

Level 3 assets include certain derivative instruments, the values of which are determined based on discounted cash flow models using inputs that the Company could not corroborate with market data.

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

(c) Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the Company's recognized losses for the indicated periods, for assets that were measured at fair value on a nonrecurring basis (in millions):

	LOSSES FOR THE THREE MONTHS ENDED		LOSSES FOR THE SIX MONTHS ENDED	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Investments in privately held companies (impaired)	\$ (39)	\$ (2)	\$ (56)	\$ (3)
Purchased intangible assets (impaired)	(37)	(56)	(37)	(56)
Total	\$ (76)	\$ (58)	\$ (93)	\$ (59)

These assets were measured at fair value due to events or circumstances the Company identified as having significant impact on their fair value during the respective periods. To arrive at the valuation of these assets, the Company considers any significant changes in the financial metrics and economic variables and also uses third-party valuation reports to assist in the valuation as necessary.

The fair value measurement of the impaired investments was classified as Level 3 because significant unobservable inputs were used in the valuation due to the absence of quoted market prices and inherent lack of liquidity. Significant unobservable inputs, which included financial metrics of comparable private and public companies, financial condition and near-term prospects of the investees, recent financing activities of the investees, and the investees' capital structure as well as other economic variables, reflected the assumptions market participants would use in pricing these assets. The impairment charges, representing the difference between the net book value and the fair value as a result of the evaluation, were recorded to other income (loss), net. The remaining carrying value of the investments that were impaired was \$11 million and \$1 million as of January 23, 2016 and January 24, 2015, respectively.

The fair value for purchased intangibles for which the carrying amount was not deemed to be recoverable was determined using the future discounted cash flows that the assets are expected to generate. The difference between the estimated fair value and the carrying value of the assets was recorded as an impairment charge, which was included in product cost of sales and operating expenses as applicable. See Note 4. The remaining carrying value of the specific purchased intangible assets that were impaired was zero and \$5 million as of January 23, 2016 and January 24, 2015, respectively.

(d) Other Fair Value Disclosures

The carrying value of the Company's investments in privately held companies that were accounted for under the cost method was \$359 million and \$319 million as of January 23, 2016 and July 25, 2015, respectively. It was not practicable to estimate the fair value of this portfolio.

The fair value of the Company's short-term loan receivables and financed service contracts approximates their carrying value due to their short duration. The aggregate carrying value of the Company's long-term loan receivables and financed service contracts and other as of January 23, 2016 and July 25, 2015 was \$2.4 billion and \$2.2 billion, respectively. The estimated fair value of the Company's long-term loan receivables and financed service contracts and other approximates their carrying value. The Company uses significant unobservable inputs in determining discounted cash flows to estimate the fair value of its long-term loan receivables and financed service contracts, and therefore they are categorized as Level 3.

As of January 23, 2016, the estimated fair value of the short-term debt approximates its carrying value due to the short maturities. As of January 23, 2016, the fair value of the Company's senior notes and other long-term debt was \$25.8 billion with a carrying amount of \$24.6 billion. This compares to a fair value of \$26.6 billion and a carrying amount of \$25.4 billion as of July 25, 2015. The fair value of the senior notes and other long-term debt was determined based on observable market prices in a less active market and was categorized as Level 2 in the fair value hierarchy.

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

10. Borrowings

(a) Short-Term Debt

The following table summarizes the Company's short-term debt (in millions, except percentages):

	January 23, 2016		July 25, 2015	
	Amount	Effective Rate	Amount	Effective Rate
Current portion of long-term debt	\$ 3,006	3.12%	\$ 3,894	2.48%
Other short-term debt	2	2.08%	3	2.44%
Total	<u>\$ 3,008</u>		<u>\$ 3,897</u>	

The effective interest rate on the current portion of long-term debt includes the impact of interest rate swaps, as discussed further in "(b) Long-Term Debt." Other notes and borrowings consist of the short-term portion of secured borrowings associated with customer financing arrangements. These notes and credit facilities were subject to various terms and foreign currency market interest rates pursuant to individual financial arrangements between the financing institution and the applicable foreign subsidiary.

On September 3, 2015, the Company repaid an aggregate principal amount of \$850 million upon the maturity of its 2015 Floating-Rate Notes.

In fiscal 2011, the Company established a short-term debt financing program of up to \$3.0 billion through the issuance of commercial paper notes. The Company uses the proceeds from the issuance of commercial paper notes for general corporate purposes. The Company had no commercial paper notes outstanding as of each of January 23, 2016 and July 25, 2015 .

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

(b) Long-Term Debt

The following table summarizes the Company's long-term debt (in millions, except percentages):

	Maturity Date	January 23, 2016		July 25, 2015	
		Amount	Effective Rate	Amount	Effective Rate
Senior notes:					
Floating-rate notes:					
Three-month LIBOR plus 0.05%	September 3, 2015	\$ —	—	\$ 850	0.43%
Three-month LIBOR plus 0.28%	March 3, 2017	1,000	0.77%	1,000	0.63%
Three-month LIBOR plus 0.31%	June 15, 2018	900	0.89%	900	0.65%
Three-month LIBOR plus 0.50%	March 1, 2019	500	0.97%	500	0.84%
Fixed-rate notes:					
5.50%	February 22, 2016	3,000	3.12%	3,000	3.07%
1.10%	March 3, 2017	2,400	0.83%	2,400	0.59%
3.15%	March 14, 2017	750	1.07%	750	0.85%
1.65%	June 15, 2018	1,600	1.72%	1,600	1.72%
4.95%	February 15, 2019	2,000	4.76%	2,000	4.70%
2.125%	March 1, 2019	1,750	1.04%	1,750	0.80%
4.45%	January 15, 2020	2,500	3.20%	2,500	3.01%
2.45%	June 15, 2020	1,500	2.54%	1,500	2.54%
2.90%	March 4, 2021	500	1.20%	500	0.96%
3.00%	June 15, 2022	500	1.45%	500	1.21%
3.625%	March 4, 2024	1,000	1.32%	1,000	1.08%
3.50%	June 15, 2025	500	1.61%	500	1.37%
5.90%	February 15, 2039	2,000	6.11%	2,000	6.11%
5.50%	January 15, 2040	2,000	5.67%	2,000	5.67%
Other long-term debt		—		1	2.08%
Total		24,400		25,251	
Unaccreted discount/issuance costs		(123)		(131)	
Hedge accounting fair value adjustments		320		231	
Total		\$ 24,597		\$ 25,351	
Reported as:					
Current portion of long-term debt		\$ 3,006		\$ 3,894	
Long-term debt		21,591		21,457	
Total		\$ 24,597		\$ 25,351	

To achieve its interest rate risk management objectives, the Company entered into interest rate swaps in prior periods with an aggregate notional amount of \$11.4 billion designated as fair value hedges of certain of its fixed-rate senior notes. In effect, these swaps convert the fixed interest rates of the fixed-rate notes to floating interest rates based on the London InterBank Offered Rate (LIBOR). The gains and losses related to changes in the fair value of the interest rate swaps substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. For additional information, see Note 11.

The effective rates for the fixed-rate debt include the interest on the notes, the accretion of the discount and issuance costs, and, if applicable, adjustments related to hedging. Interest is payable semiannually on each class of the senior fixed-rate notes and payable quarterly on the floating-rate notes. Each of the senior fixed-rate notes is redeemable by the Company at any time, subject to a make-whole premium.

The senior notes rank at par with the commercial paper notes that may be issued in the future pursuant to the Company's short-term debt financing program, as discussed above under "(a) Short-Term Debt." As of January 23, 2016, the Company was in compliance with all debt covenants.

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

As of January 23, 2016, future principal payments for long-term debt, including the current portion, are summarized as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2016 (remaining six months)	\$ 3,000
2017	4,150
2018	2,500
2019	4,250
2020	4,000
Thereafter	6,500
Total	\$ 24,400

(c) Credit Facility

On May 15, 2015, the Company entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on May 15, 2020. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the highest of (a) the Federal Funds rate plus 0.50%, (b) Bank of America's "prime rate" as announced from time to time, or (c) LIBOR, or a comparable or successor rate that is approved by the Administrative Agent ("Eurocurrency Rate"), for an interest period of one-month plus 1.00%, or (ii) the Eurocurrency Rate, plus a margin that is based on the Company's senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc., provided that in no event will the Eurocurrency Rate be less than zero. The credit agreement requires the Company to comply with certain covenants, including that it maintain an interest coverage ratio as defined in the agreement.

The Company may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$2.0 billion and/or extend the expiration date of the credit facility up to May 15, 2022. The Company was in compliance with the required interest coverage ratio and the other covenants, and the Company had not borrowed any funds under the credit facility.

11. Derivative Instruments

(a) Summary of Derivative Instruments

The Company uses derivative instruments primarily to manage exposures to foreign currency exchange rate, interest rate, and equity price risks. The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates, interest rates, and equity prices. The Company's derivatives expose it to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. The Company does, however, seek to mitigate such risks by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counterparties.

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

The fair values of the Company's derivative instruments and the line items on the Consolidated Balance Sheets to which they were recorded are summarized as follows (in millions):

DERIVATIVE ASSETS				DERIVATIVE LIABILITIES		
	Balance Sheet Line Item	January 23, 2016	July 25, 2015	Balance Sheet Line Item	January 23, 2016	July 25, 2015
Derivatives designated as hedging instruments:						
Foreign currency derivatives	Other current assets	\$ 1	\$ 10	Other current liabilities	\$ 16	\$ 11
Interest rate derivatives	Other assets	313	202	Other long-term liabilities	—	—
Total		314	212		16	11
Derivatives not designated as hedging instruments:						
Foreign currency derivatives	Other current assets	4	2	Other current liabilities	3	1
Equity derivatives	Other assets	3	4	Other long-term liabilities	—	—
Total		7	6		3	1
Total		<u>\$ 321</u>	<u>\$ 218</u>		<u>\$ 19</u>	<u>\$ 12</u>

The effects of the Company's cash flow and net investment hedging instruments on other comprehensive income (OCI) and the Consolidated Statements of Operations are summarized as follows (in millions):

GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)			GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE THREE MONTHS ENDED (EFFECTIVE PORTION)		
	January 23, 2016	January 24, 2015	Line Item in Statements of Operations	January 23, 2016	January 24, 2015
Derivatives designated as cash flow hedging instruments:					
Foreign currency derivatives	\$ (20)	\$ (75)	Operating expenses	\$ (4)	\$ (21)
			Cost of sales — service	(1)	(5)
Total	<u>\$ (20)</u>	<u>\$ (75)</u>		<u>\$ (5)</u>	<u>\$ (26)</u>

Derivatives designated as net investment hedging instruments:

Foreign currency derivatives	<u>\$ 11</u>	<u>\$ 24</u>	Other income (loss), net	<u>\$ —</u>	<u>\$ —</u>
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GAINS (LOSSES) RECOGNIZED IN OCI ON DERIVATIVES FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)			GAINS (LOSSES) RECLASSIFIED FROM AOCI INTO INCOME FOR THE SIX MONTHS ENDED (EFFECTIVE PORTION)		
	January 23, 2016	January 24, 2015	Line Item in Statements of Operations	January 23, 2016	January 24, 2015
Derivatives designated as cash flow hedging instruments:					
Foreign currency derivatives	\$ (24)	\$ (131)	Operating expenses	\$ (6)	\$ (24)
			Cost of sales — service	(2)	(6)
Total	<u>\$ (24)</u>	<u>\$ (131)</u>		<u>\$ (8)</u>	<u>\$ (30)</u>

Derivatives designated as net investment hedging instruments:

Foreign currency derivatives	<u>\$ 11</u>	<u>\$ 44</u>	Other income (loss), net	<u>\$ —</u>	<u>\$ —</u>
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As of January 23, 2016, the Company estimates that approximately \$21 million of net derivative losses related to its cash flow hedges included in accumulated other comprehensive income/loss (AOCI) will be reclassified into earnings within the next 12 months when the underlying hedged item impacts earnings.

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

The effect on the Consolidated Statements of Operations of derivative instruments designated as fair value hedges and the underlying hedged items is summarized as follows (in millions):

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVE INSTRUMENTS FOR THE THREE MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE THREE MONTHS ENDED	
		January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Equity derivatives	Other income (loss), net	\$ —	\$ (18)	\$ —	\$ 18
Interest rate derivatives	Interest expense	(16)	61	18	(61)
Total		\$ (16)	\$ 43	\$ 18	\$ (43)

Derivatives Designated as Fair Value Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) ON DERIVATIVE INSTRUMENTS FOR THE SIX MONTHS ENDED		GAINS (LOSSES) RELATED TO HEDGED ITEMS FOR THE SIX MONTHS ENDED	
		January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Equity derivatives	Other income (loss), net	\$ —	\$ (12)	\$ —	\$ 12
Interest rate derivatives	Interest expense	111	131	(107)	(134)
Total		\$ 111	\$ 119	\$ (107)	\$ (122)

The effect on the Consolidated Statements of Operations of derivative instruments not designated as hedges is summarized as follows (in millions):

Derivatives Not Designated as Hedging Instruments	Line Item in Statements of Operations	GAINS (LOSSES) FOR THE THREE MONTHS ENDED		GAINS (LOSSES) FOR THE SIX MONTHS ENDED	
		January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Foreign currency derivatives	Other income (loss), net	\$ (58)	\$ (51)	\$ (54)	\$ (109)
Total return swaps—deferred compensation	Operating expenses	(38)	13	(54)	—
Equity derivatives	Other income (loss), net	3	8	13	4
Total		\$ (93)	\$ (30)	\$ (95)	\$ (105)

The notional amounts of the Company's outstanding derivatives are summarized as follows (in millions):

	January 23, 2016	July 25, 2015
Derivatives designated as hedging instruments:		
Foreign currency derivatives—cash flow hedges	\$ 684	\$ 1,201
Interest rate derivatives	11,400	11,400
Net investment hedging instruments	283	192
Derivatives not designated as hedging instruments:		
Foreign currency derivatives	2,469	2,023
Total return swaps—deferred compensation	432	462
Total	\$ 15,268	\$ 15,278

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

(b) Offsetting of Derivative Instruments

The Company presents its derivative instruments at gross fair values in the Consolidated Balance Sheets. However, the Company's master netting and other similar arrangements with the respective counterparties allow for net settlement under certain conditions, which are designed to reduce credit risk by permitting net settlement with the same counterparty. To further limit credit risk, the Company also enters into collateral security arrangements related to certain derivative instruments whereby cash is posted as collateral between the counterparties based on the fair market value of the derivative instrument. Information related to these offsetting arrangements is summarized as follows (in millions):

January 23, 2016						
	Gross Amounts Offset in the Consolidated Balance Sheets			Gross Amounts Not Offset in the Consolidated Balance Sheets, but with Legal Rights to Offset		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Derivative Amounts	Cash Collateral	Net Amount
Derivatives assets	\$ 321	\$ —	\$ 321	\$ (15)	\$ (255)	\$ 51
Derivatives liabilities	\$ 19	\$ —	\$ 19	\$ (15)	\$ —	\$ 4

July 25, 2015						
	Gross Amounts Offset in the Consolidated Balance Sheets			Gross Amounts Not Offset in the Consolidated Balance Sheets, but with Legal Rights to Offset		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Derivative Amounts	Cash Collateral	Net Amount
Derivatives assets	\$ 218	\$ —	\$ 218	\$ (12)	\$ (124)	\$ 82
Derivatives liabilities	\$ 12	\$ —	\$ 12	\$ (12)	\$ —	\$ —

(c) Foreign Currency Exchange Risk

The Company conducts business globally in numerous currencies. Therefore, it is exposed to adverse movements in foreign currency exchange rates. To limit the exposure related to foreign currency changes, the Company enters into foreign currency contracts. The Company does not enter into such contracts for trading purposes.

The Company hedges forecasted foreign currency transactions related to certain operating expenses and service cost of sales with currency options and forward contracts. These currency options and forward contracts, designated as cash flow hedges, generally have maturities of less than 18 months. The Company assesses effectiveness based on changes in total fair value of the derivatives. The effective portion of the derivative instrument's gain or loss is initially reported as a component of AOCI and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion, if any, of the gain or loss is reported in earnings immediately. During the periods presented, the Company did not discontinue any cash flow hedges for which it was probable that a forecasted transaction would not occur.

The Company enters into foreign exchange forward and option contracts to reduce the short-term effects of foreign currency fluctuations on assets and liabilities such as foreign currency receivables, including long-term customer financings, investments, and payables. These derivatives are not designated as hedging instruments. Gains and losses on the contracts are included in other income (loss), net, and substantially offset foreign exchange gains and losses from the remeasurement of intercompany balances or other current assets, investments, or liabilities denominated in currencies other than the functional currency of the reporting entity.

The Company hedges certain net investments in its foreign operations with forward contracts to reduce the effects of foreign currency fluctuations on the Company's net investment in those foreign subsidiaries. These derivative instruments generally have maturities of up to six months.

(d) Interest Rate Risk

Interest Rate Derivatives, Investments The Company's primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. To realize these objectives, the Company may utilize interest rate swaps or other derivatives designated as fair value or cash flow hedges. As of January 23, 2016 and July 25, 2015, the Company did not have any outstanding interest rate derivatives related to its fixed income securities.

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

Interest Rate Derivatives Designated as Fair Value Hedges, Long-Term Debt In fiscal 2016, the Company did not enter into any interest rate swaps. In prior fiscal years, the Company entered into interest rate swaps designated as fair value hedges related to fixed-rate senior notes that are due in fiscal years 2016 through 2025. Under these interest rate swaps, the Company receives fixed-rate interest payments and makes interest payments based on LIBOR plus a fixed number of basis points. The effect of such swaps is to convert the fixed interest rates of the senior fixed-rate notes to floating interest rates based on LIBOR. The gains and losses related to changes in the fair value of the interest rate swaps are included in interest expense and substantially offset changes in the fair value of the hedged portion of the underlying debt that are attributable to the changes in market interest rates. The fair value of the interest rate swaps was reflected in other assets and other long-term liabilities.

(e) Equity Price Risk

The Company may hold equity securities for strategic purposes or to diversify its overall investment portfolio. The publicly traded equity securities in the Company's portfolio are subject to price risk. To manage its exposure to changes in the fair value of certain equity securities, the Company has entered into equity derivatives that are designated as fair value hedges. The changes in the value of the hedging instruments are included in other income (loss), net, and offset the change in the fair value of the underlying hedged investment. In addition, the Company periodically enters into equity derivatives that are not designated as accounting hedges. The changes in the fair value of these derivatives are also included in other income (loss), net.

The Company is also exposed to variability in compensation charges related to certain deferred compensation obligations to employees. Although not designated as accounting hedges, the Company utilizes derivatives such as total return swaps to economically hedge this exposure.

(f) Hedge Effectiveness

For the periods presented, amounts excluded from the assessment of hedge effectiveness were not material for fair value, cash flow, and net investment hedges. In addition, hedge ineffectiveness for fair value, cash flow, and net investment hedges was not material for any of the periods presented.

(g) Collateral and Credit-Risk-Related Contingent Features

For certain derivative instruments, the Company and its counterparties have entered into arrangements requiring the party that is in a liability position from a mark-to-market standpoint to post cash collateral to the other party. See further discussion under "(b) Offsetting of Derivative Instruments" above.

In addition, certain derivative instruments are executed under agreements that have provisions requiring the Company and the counterparty to maintain a specified credit rating from certain credit-rating agencies. Under such agreements, if the Company's or the counterparty's credit rating falls below a specified credit rating, either party has the right to request collateral on the derivatives' net liability position. No such derivatives were in a net liability position as of January 23, 2016 or July 25, 2015.

12. Commitments and Contingencies

(a) Operating Leases

The Company leases office space in many U.S. locations. Outside the United States, larger leased sites include sites in Belgium, Canada, China, France, Germany, India, Israel, Japan, Poland and the United Kingdom. The Company also leases equipment and vehicles. Future minimum lease payments under all noncancelable operating leases with an initial term in excess of one year as of January 23, 2016 are as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2016 (remaining six months)	\$ 184
2017	268
2018	204
2019	117
2020	96
Thereafter	222
Total	\$ 1,091

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

(b) Purchase Commitments with Contract Manufacturers and Suppliers

The Company purchases components from a variety of suppliers and uses several contract manufacturers to provide manufacturing services for its products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by the Company or establish the parameters defining the Company's requirements. A significant portion of the Company's reported purchase commitments arising from these agreements consists of firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow the Company the option to cancel, reschedule, and adjust the Company's requirements based on its business needs prior to firm orders being placed. As of January 23, 2016 and July 25, 2015, the Company had total purchase commitments for inventory of \$3,435 million and \$4,078 million, respectively.

The Company records a liability for firm, noncancelable, and unconditional purchase commitments for quantities in excess of its future demand forecasts consistent with the valuation of the Company's excess and obsolete inventory. As of January 23, 2016 and July 25, 2015, the liability for these purchase commitments was \$180 million and \$156 million, respectively, and was included in other current liabilities.

(c) Other Commitments

In connection with the Company's acquisitions, the Company has agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or upon the continued employment with the Company of certain employees of the acquired entities.

The following table summarizes the compensation expense related to acquisitions (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Compensation expense related to acquisitions	\$ 71	\$ 94	\$ 144	\$ 192

As of January 23, 2016, the Company estimated that future cash compensation expense of up to \$230 million may be required to be recognized pursuant to the applicable business combination agreements, which included the remaining potential compensation expense related to Insieme Networks, Inc. ("Insieme"), as more fully discussed immediately below.

Insieme Networks, Inc. In the third quarter of fiscal 2012, the Company made an investment in Insieme, an early stage company focused on research and development in the data center market. As set forth in the agreement between the Company and Insieme, this investment included \$100 million of funding and a license to certain of the Company's technology. Immediately prior to the call option exercise and acquisition described below, the Company owned approximately 83% of Insieme as a result of these investments and consolidated the results of Insieme in its Consolidated Financial Statements. In connection with this investment, the Company and Insieme entered into a put/call option agreement that provided the Company with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders could require the Company to purchase their shares upon the occurrence of certain events.

During the first quarter of fiscal 2014, the Company exercised its call option and entered into an agreement to purchase the remaining interests in Insieme. The acquisition closed in the second quarter of fiscal 2014, at which time the former noncontrolling interest holders became eligible to receive up to two milestone payments, which will be determined using agreed-upon formulas based primarily on revenue for certain of Insieme's products. The Company recorded compensation expense of \$50 million and \$51 million during the three months ended January 23, 2016 and January 24, 2015, respectively, and \$101 million and \$104 million during the six months ended January 23, 2016 and January 24, 2015, respectively, related to the fair value of the vested portion of amounts that were earned or are expected to be earned by the former noncontrolling interest holders. Continued vesting and changes to the fair value of the amounts probable of being earned will result in adjustments to the recorded compensation expense in future periods. Based on the terms of the agreement, the Company has determined that the maximum amount that could be recorded as compensation expense by the Company is approximately \$839 million (which includes the \$724 million that has been expensed to date), net of forfeitures.

The former noncontrolling interest holders earned the maximum amount related to the first milestone payment and were paid approximately \$354 million for a portion of this amount during the six months ended January 23, 2016. The balance of the first milestone payment is expected to be paid primarily through the end of fiscal 2016. The second milestone payment, to the extent earned, is expected to be paid primarily during the first half of fiscal 2017.

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

The Company also has certain funding commitments, primarily related to its investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were \$188 million and \$205 million as of January 23, 2016 and July 25, 2015, respectively.

(d) Product Warranties

The following table summarizes the activity related to the product warranty liability (in millions):

	Six Months Ended	
	January 23, 2016	January 24, 2015
Balance at beginning of period	\$ 449	\$ 446
Provision for warranties issued	322	355
Payments	(340)	(327)
Acquisition/divestitures	(28)	—
Balance at end of period	\$ 403	\$ 474

The Company accrues for warranty costs as part of its cost of sales based on associated material product costs, labor costs for technical support staff, and associated overhead. The Company's products are generally covered by a warranty for periods ranging from 90 days to five years, and for some products the Company provides a limited lifetime warranty.

(e) Financing and Other Guarantees

In the ordinary course of business, the Company provides financing guarantees for various third-party financing arrangements extended to channel partners and end-user customers. Payments under these financing guarantee arrangements were not material for the periods presented.

Channel Partner Financing Guarantees The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The volume of channel partner financing was \$6.5 billion and \$6.2 billion for the three months ended January 23, 2016 and January 24, 2015, respectively and was \$13.4 billion and \$12.5 billion for the six months ended January 23, 2016 and January 24, 2015, respectively. The balance of the channel partner financing subject to guarantees was \$1.2 billion as of each of January 23, 2016 and July 25, 2015, respectively.

End-User Financing Guarantees The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans, which typically have terms of up to three years. The volume of financing provided by third parties for leases and loans as to which the Company had provided guarantees was \$16 million and \$39 million for the three months ended January 23, 2016 and January 24, 2015, respectively, and was \$39 million and \$65 million for the six months ended January 23, 2016 and January 24, 2015, respectively.

Financing Guarantee Summary The aggregate amounts of financing guarantees outstanding at January 23, 2016 and July 25, 2015, representing the total maximum potential future payments under financing arrangements with third parties along with the related deferred revenue, are summarized in the following table (in millions):

	January 23, 2016	July 25, 2015
Maximum potential future payments relating to financing guarantees:		
Channel partner	\$ 244	\$ 288
End user	113	129
Total	\$ 357	\$ 417
Deferred revenue associated with financing guarantees:		
Channel partner	\$ (100)	\$ (127)
End user	(90)	(107)
Total	\$ (190)	\$ (234)
Maximum potential future payments relating to financing guarantees, net of associated deferred revenue	\$ 167	\$ 183

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Other Guarantees The Company's other guarantee arrangements as of January 23, 2016 and July 25, 2015 that were subject to recognition and disclosure requirements were not material.

(f) Supplier Component Remediation Liability

The Company has recorded in other current liabilities a liability for the expected remediation cost for certain products sold in prior fiscal years containing memory components manufactured by a single supplier between 2005 and 2010. These components were widely used across the industry and are included in a number of the Company's products. Defects in some of these components have caused products to fail after a power cycle event. Defect rates due to this issue have been and are expected to be low. However, the Company has seen a small number of its customers experience a growing number of failures in their networks as a result of this component problem. Although the majority of these products was beyond the Company's warranty terms, the Company has been proactively working with customers on mitigation. Prior to the second quarter of fiscal 2014, the Company had a liability of \$63 million related to this issue for expected remediation costs based on the intended approach at that time. In February 2014, on the basis of the growing number of failures described above, the Company decided to expand its approach, which resulted in a charge to product cost of sales of \$655 million being recorded for the second quarter of fiscal 2014. During the third quarter of fiscal 2015, an adjustment to product cost of sales of \$164 million was recorded to reduce the liability, reflecting net lower than previously estimated future costs to remediate the impacted customer products. The supplier component remediation liability as of January 23, 2016 and July 25, 2015 was \$375 million and \$408 million, respectively.

(g) Indemnifications

In the normal course of business, the Company indemnifies other parties, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold such parties harmless against losses arising from a breach of representations or covenants or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim.

The Company is providing such indemnifications, among other cases, in matters involving certain of the Company's service provider customers that are subject to patent infringement claims asserted by Sprint Communications Company, L.P. ("Sprint") now pending in Kansas and Delaware. Sprint alleges that the service provider customers infringe Sprint's patents by offering Voice over Internet Protocol-based telephone services utilizing products provided by the Company and other manufacturers. Sprint seeks monetary damages. Sprint's cases in Kansas include claims against Comcast and Time Warner Cable, and the case in Delaware for which the Company is providing indemnification involves Cox Communications. At the request of Sprint and Comcast, on August 5, 2015, the judge in Sprint's Kansas action ordered a six-month stay of the patent litigation between those parties for them to pursue a resolution of their dispute. In addition, on May 15, 2015, the judge in Sprint's Delaware action against Cox ruled invalid six of the patents that Sprint asserted Cox had infringed and a final judgment was entered on August 27, 2015, of invalidity, which Sprint appealed on October 1, 2015. In May 2015 the Company filed two declaratory judgment actions against Sprint seeking declarations that the patents Sprint asserted against the Company's customers are invalid and/or not infringed. Cox has filed a motion for summary judgment of non-infringement for the five remaining Sprint patents that are actively being litigated against Cox in Delaware, and Comcast has also won a judgment of non-infringement, now being appealed by Sprint, in a separate case brought against it by Sprint in Delaware. In light of the invalidity rulings against Sprint in Delaware, on October 8, 2015, the judge in Sprint's Kansas actions ordered an additional stay of Sprint's Kansas actions including the case against Time Warner Cable, pending resolution of Sprint's appeal of the Delaware Judge's judgment of invalidity in the Cox case.

The Company believes that the service providers have strong defenses and that its products do not infringe the patents subject to the claims and/or that Sprint's patents are invalid. Due to the uncertainty surrounding the litigation process, which involves numerous defendants, the Company is unable to reasonably estimate the ultimate outcome of this litigation at this time. Should the plaintiff prevail in litigation, mediation, or settlement, the Company, in accordance with its agreement, may have an obligation to indemnify its service provider customers for damages, mediation awards, or settlement amounts arising from their use of Cisco products.

In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's Amended and Restated Bylaws contain similar indemnification obligations to the Company's agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the Company's limited history with prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on the Company's operating results, financial position, or cash flows.

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(h) Legal Proceedings

Brazil Brazilian authorities have investigated the Company's Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of the Company's products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against the Company's Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In addition to claims asserted by the Brazilian federal tax authorities in prior fiscal years, tax authorities from the Brazilian state of Sao Paulo have asserted similar claims on the same legal basis in prior fiscal years. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against the Company's Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008, and the asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to \$209 million for the alleged evasion of import and other taxes, \$942 million for interest, and \$929 million for various penalties, all determined using an exchange rate as of January 23, 2016. The Company has completed a thorough review of the matters and believes the asserted claims against the Company's Brazilian subsidiary are without merit, and the Company is defending the claims vigorously. While the Company believes there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, the Company is unable to determine the likelihood of an unfavorable outcome against its Brazilian subsidiary and is unable to reasonably estimate a range of loss, if any. The Company does not expect a final judicial determination for several years.

Russia and the Commonwealth of Independent States At the request of the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice, the Company is conducting an investigation into allegations that the Company and those agencies received regarding possible violations of the U.S. Foreign Corrupt Practices Act involving business activities of the Company's operations in Russia and certain of the Commonwealth of Independent States, and by certain resellers of the Company's products in those countries. The Company takes any such allegations very seriously and is fully cooperating with and sharing the results of its investigation with the SEC and the Department of Justice. While the outcome of the Company's investigation is currently not determinable, the Company does not expect that it will have a material adverse effect on its consolidated financial position, results of operations, or cash flows. The countries that are the subject of the investigation collectively comprise less than 2% of the Company's revenues.

In addition, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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13. Shareholders' Equity

(a) Cash Dividends on Shares of Common Stock

During the six months ended January 23, 2016, the Company declared and paid cash dividends of \$0.42 per common share, or \$2.1 billion, on the Company's outstanding common stock. During the six months ended January 24, 2015, the Company declared and paid cash dividends of \$0.38 per common share, or \$1.9 billion, on the Company's outstanding common stock.

On February 10, 2016, the Company's Board of Directors declared a quarterly dividend of \$0.26 per common share to be paid on April 27, 2016 to all shareholders of record as of the close of business on April 6, 2016. Any future dividends will be subject to the approval of the Company's Board of Directors.

(b) Stock Repurchase Program

In September 2001, the Company's Board of Directors authorized a stock repurchase program. As of January 23, 2016, the Company's Board of Directors had authorized an aggregate repurchase of up to \$97 billion of common stock under this program.

On February 10, 2016, the Company's Board of Directors authorized a \$15 billion increase to the stock repurchase program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately \$16.9 billion, with no termination date. A summary of the stock repurchase activity under the stock repurchase program, reported based on the trade date, is summarized as follows (in millions, except per-share amounts):

	Shares Repurchased	Weighted- Average Price per Share	Amount Repurchased
Cumulative balance at July 25, 2015	4,443	\$ 20.86	\$ 92,679
Repurchase of common stock under the stock repurchase program ⁽¹⁾	93	26.46	2,469
Cumulative balance at January 23, 2016	4,536	\$ 20.97	\$ 95,148

⁽¹⁾ Includes stock repurchases of \$161 million, which were pending settlement as of January 23, 2016. There were \$36 million of stock repurchases that were pending settlement as of July 25, 2015.

The purchase price for the shares of the Company's stock repurchased is reflected as a reduction to shareholders' equity. The Company is required to allocate the purchase price of the repurchased shares as (i) a reduction to retained earnings and (ii) a reduction of common stock and additional paid-in capital. Issuance of common stock and the tax benefit related to employee stock incentive plans are recorded as an increase to common stock and additional paid-in capital.

(c) Restricted Stock Unit Withholdings

For the six months ended January 23, 2016 and January 24, 2015, the Company repurchased approximately 16 million and 15 million shares, or \$412 million and \$369 million, of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock or stock units.

14. Employee Benefit Plans

(a) Employee Stock Incentive Plans

Stock Incentive Plan Program Description As of January 23, 2016, the Company had three stock incentive plans: the 2005 Stock Incentive Plan (the "2005 Plan"); the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan (the "SA Acquisition Plan"); and the Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan (the "WebEx Acquisition Plan"). In addition, the Company has, in connection with the acquisitions of various companies, assumed the share-based awards granted under stock incentive plans of the acquired companies or issued share-based awards in replacement thereof. Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors. Since the inception of the stock incentive plans, the Company has granted share-based awards to a significant percentage of its employees, and the majority has been granted to employees below the vice president level. The Company's primary stock incentive plans are summarized as follows:

2005 Plan As of January 23, 2016, the maximum number of shares issuable under the 2005 Plan over its term was 694 million shares, plus the 1996 Stock Incentive Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that are forfeited or are terminated for any other reason before being exercised or settled. If any awards granted under the 2005 Plan are forfeited or are terminated for any other reason before being exercised or settled, the unexercised or unsettled shares underlying the awards will again be available under the 2005 Plan. Starting November 19, 2013, shares withheld by the Company from an award other than

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a stock option or stock appreciation right to satisfy withholding tax liabilities resulting from such award will again be available for issuance, based on the fungible share ratio in effect on the date of grant.

Pursuant to an amendment approved by the Company's shareholders on November 12, 2009, the number of shares available for issuance under the 2005 Plan is reduced by 1.5 shares for each share awarded as a stock grant or a stock unit, and any shares underlying awards outstanding under the 1996 Stock Incentive Plan, the SA Acquisition Plan, and the WebEx Acquisition Plan that expire unexercised at the end of their maximum terms become available for reissuance under the 2005 Plan. The 2005 Plan permits the granting of stock options, restricted stock, and restricted stock units ("RSUs"), the vesting of which may be performance-based or market-based along with the requisite service requirement, and stock appreciation rights to employees (including employee directors and officers), consultants of the Company and its subsidiaries and affiliates, and non-employee directors of the Company. Stock options and stock appreciation rights granted under the 2005 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date and prior to November 12, 2009 have an expiration date no later than nine years from the grant date. The expiration date for stock options and stock appreciation rights granted subsequent to the amendment approved on November 12, 2009 shall be no later than 10 years from the grant date.

The stock options will generally become exercisable for 20% or 25% of the option shares one year from the date of grant and then ratably over the following 48 months or 36 months, respectively. Time-based stock grants and time-based RSUs will generally vest with respect to 20% or 25% of the shares or share units covered by the grant annually over the vesting period. The majority of the performance-based and market-based RSUs vests at the end of the three -year requisite service period or earlier if the award recipient meets certain retirement eligibility conditions. Certain performance-based RSUs, that are based on the achievement of financial and/or non-financial operating goals, typically vest upon the achievement of milestones (and may require subsequent service periods), with overall vesting of the shares underlying the award ranging from six months to three years. The Compensation and Management Development Committee of the Board of Directors has the discretion to use different vesting schedules. Stock appreciation rights may be awarded in combination with stock options or stock grants, and such awards shall provide that the stock appreciation rights will not be exercisable unless the related stock options or stock grants are forfeited. Stock grants may be awarded in combination with non-statutory stock options, and such awards may provide that the stock grants will be forfeited in the event that the related non-statutory stock options are exercised.

Acquisition Plans In connection with the Company's acquisitions of Scientific-Atlanta, Inc. ("Scientific-Atlanta") and WebEx Communications, Inc. ("WebEx"), the Company adopted the SA Acquisition Plan and the WebEx Acquisition Plan, respectively, each effective upon completion of the applicable acquisition. These plans constitute assumptions, amendments, restatements, and renamings of the 2003 Long-Term Incentive Plan of Scientific-Atlanta and the WebEx Communications, Inc. Amended and Restated 2000 Stock Incentive Plan, respectively. The plans permit the grant of stock options, stock, stock units, and stock appreciation rights to certain employees of the Company and its subsidiaries and affiliates who had been employed by Scientific-Atlanta or its subsidiaries or WebEx or its subsidiaries, as applicable. As a result of the shareholder approval of the amendment and extension of the 2005 Plan, as of November 15, 2007, the Company will no longer make stock option grants or direct share issuances under either the SA Acquisition Plan or the WebEx Acquisition Plan.

(b) Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan, which includes its subplan named the International Employee Stock Purchase Plan (together, the "Purchase Plan"), under which 621 million shares of the Company's common stock have been reserved for issuance as of January 23, 2016. Eligible employees are offered shares through a 24-month offering period, which consists of four consecutive 6-month purchase periods. Employees may purchase a limited number of shares of the Company's stock at a discount of up to 15% of the lesser of the market value at the beginning of the offering period or the end of each 6-month purchase period. The Purchase Plan is scheduled to terminate on January 3, 2020. The Company issued 14 million shares under the Purchase Plan during each of the six months ended January 23, 2016 and January 24, 2015. As of January 23, 2016, 134 million shares were available for issuance under the Purchase Plan.

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(c) Summary of Share-Based Compensation Expense

Share-based compensation expense consists primarily of expenses for stock options, stock purchase rights, restricted stock, and restricted stock units granted to employees. The following table summarizes share-based compensation expense (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Cost of sales—product	\$ 16	\$ 11	\$ 29	\$ 22
Cost of sales—service	35	34	73	71
Share-based compensation expense in cost of sales	51	45	102	93
Research and development	107	105	221	224
Sales and marketing	126	114	265	261
General and administrative	47	42	104	101
Restructuring and other charges	(1)	2	14	(2)
Share-based compensation expense in operating expenses	279	263	604	584
Total share-based compensation expense	\$ 330	\$ 308	\$ 706	\$ 677
Income tax benefit for share-based compensation	\$ 103	\$ 85	\$ 198	\$ 179

As of January 23, 2016, the total compensation cost related to unvested share-based awards not yet recognized was \$2.9 billion, which is expected to be recognized over approximately 2.6 years on a weighted-average basis.

(d) Share-Based Awards Available for Grant

A summary of share-based awards available for grant is as follows (in millions):

	Share-Based Awards Available for Grant
BALANCE AT JULY 26, 2014	310
Restricted stock, stock units, and other share-based awards granted	(101)
Share-based awards canceled/forfeited/expired	40
Shares withheld for taxes and not issued	27
BALANCE AT JULY 25, 2015	276
Restricted stock, stock units, and other share-based awards granted	(64)
Share-based awards canceled/forfeited/expired	18
Shares withheld for taxes and not issued	23
Other	2
BALANCE AT JANUARY 23, 2016	255

As reflected in the preceding table, for each share awarded as restricted stock or subject to a restricted stock unit award under the 2005 Plan, an equivalent of 1.5 shares was deducted from the available share-based award balance. For restricted stock units that were awarded with vesting contingent upon the achievement of future financial performance or market-based metrics, the maximum awards that can be achieved upon full vesting of such awards were reflected in the preceding table.

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(e) Restricted Stock and Stock Unit Awards

A summary of the restricted stock and stock unit activity, which includes time-based and performance-based or market-based restricted stock units, is as follows (in millions, except per-share amounts):

	Restricted Stock/ Stock Units	Weighted-Average Grant Date Fair Value per Share	Aggregate Fair Value
UNVESTED BALANCE AT JULY 26, 2014	149	\$ 19.54	
Granted and assumed	67	25.29	
Vested	(57)	19.82	\$ 1,517
Canceled/forfeited	(16)	20.17	
UNVESTED BALANCE AT JULY 25, 2015	143	22.08	
Granted and assumed	43	24.80	
Vested	(40)	20.24	\$ 1,050
Canceled/forfeited	(9)	22.57	
UNVESTED BALANCE AT JANUARY 23, 2016	137	\$ 23.45	

(f) Stock Option Awards

A summary of the stock option activity is as follows (in millions, except per-share amounts):

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT JULY 26, 2014	187	\$ 26.03
Assumed from acquisitions	1	2.60
Exercised	(71)	21.15
Canceled/forfeited/expired	(14)	29.68
BALANCE AT JULY 25, 2015	103	28.68
Assumed from acquisitions	5	2.07
Exercised	(20)	21.63
Canceled/forfeited/expired	(10)	29.00
BALANCE AT JANUARY 23, 2016	78	\$ 28.75

The following table summarizes significant ranges of outstanding and exercisable stock options as of January 23, 2016 (in millions, except years and share prices):

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING				STOCK OPTIONS EXERCISABLE		
	Number Outstanding	Weighted- Average Remaining Contractual Life (in Years)	Weighted- Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted- Average Exercise Price per Share	Aggregate Intrinsic Value
\$ 0.01 – 20.00	7	6.2	\$ 3.32	\$ 135	4	\$ 4.01	\$ 70
\$ 20.01 – 25.00	2	0.9	23.02	1	2	23.02	1
\$ 25.01 – 30.00	10	0.7	26.82	—	10	26.82	—
\$ 30.01 – 35.00	59	0.6	32.16	—	59	32.16	—
Total	78	1.1	\$ 28.75	\$ 136	75	\$ 29.83	\$ 71

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$23.37 as of January 22, 2016, that would have been received by the option holders had those option holders exercised their stock options as of that date. The total number of in-the-money stock options exercisable as of January 23, 2016 was 4 million. As of July 25, 2015, 102 million outstanding stock options were exercisable and the weighted-average exercise price was \$29.02.

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(g) Valuation of Employee Share-Based Awards

Time-based restricted stock units and performance-based restricted stock units ("PRSUs") that are based on the Company's financial performance metrics or non-financial operating goals are valued using the market value of the Company's common stock on the date of grant, discounted for the present value of expected dividends. On the date of grant, the Company estimated the fair value of the total shareholder return (TSR) component of the PRSUs using a Monte Carlo simulation model. The assumptions for the valuation of time-based RSUs and PRSUs are summarized as follows:

	RESTRICTED STOCK UNITS		PERFORMANCE RESTRICTED STOCK UNITS	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
<u>Three Months Ended</u>				
Number of shares granted (in millions)	27	1	1	1
Grant date fair value per share	\$ 25.25	\$ 25.07	\$ 25.32	\$ 25.39
Weighted-average assumptions/inputs:				
Expected dividend yield	3.1%	2.8%	3.1%	2.8%
Range of risk-free interest rates	0.1% – 1.2%	0.0% – 1.6%	0.0% – 1.2%	0.0% – 1.6%
Range of expected volatilities for index	N/A	N/A	15.3% – 54.3%	14.4% – 63.7%
	RESTRICTED STOCK UNITS		PERFORMANCE RESTRICTED STOCK UNITS	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
<u>Six Months Ended</u>				
Number of shares granted (in millions)	36	11	5	7
Grant date fair value per share	\$ 24.93	\$ 23.34	\$ 24.71	\$ 23.70
Weighted-average assumptions/inputs:				
Expected dividend yield	3.1%	3.0%	3.2%	3.0%
Range of risk-free interest rates	0.0% – 1.2%	0.0% – 1.8%	0.0% – 1.2%	0.0% – 1.8%
Range of expected volatilities for index	N/A	N/A	15.3% – 54.3%	14.4% – 70.0%

The PRSUs granted during the periods presented are contingent on the achievement of the Company's financial performance metrics, its comparative market-based returns, or the achievement of financial and non-financial operating goals. For the awards based on financial performance metrics or comparative market-based returns, generally 50% of the PRSUs are earned based on the average of annual operating cash flow and earnings per share goals established at the beginning of each fiscal year over a three-year performance period. Generally, the remaining 50% of the PRSUs are earned based on the Company's TSR measured against the benchmark TSR of a peer group over the same period. Each PRSU recipient could vest in 0% to 150% of the target shares granted contingent on the achievement of the Company's financial performance metrics or its comparative market-based returns and 0% to 100% of the target shares granted contingent on the achievement of non-financial operating goals.

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15. Comprehensive Income

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest, for the six months ended January 23, 2016 and January 24, 2015 are summarized as follows (in millions):

	Net Unrealized Gains on Available- for-Sale Investments	Net Unrealized Losses Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Actuarial Gains and Losses	Accumulated Other Comprehensive Income (Loss)
BALANCE AT JULY 25, 2015	\$ 310	\$ (16)	\$ (233)	\$ 61
Other comprehensive income (loss) before reclassifications attributable to Cisco Systems, Inc.	(515)	(24)	(524)	(1,063)
(Gains) losses reclassified out of AOCI	20	8	1	29
Tax benefit (expense)	198	2	(34)	166
BALANCE AT JANUARY 23, 2016	\$ 13	\$ (30)	\$ (790)	\$ (807)

	Net Unrealized Gains on Available- for-Sale Investments	Net Unrealized Losses Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Actuarial Gains and Losses	Accumulated Other Comprehensive Income (Loss)
BALANCE AT JULY 26, 2014	\$ 424	\$ (12)	\$ 265	\$ 677
Other comprehensive income (loss) before reclassifications attributable to Cisco Systems, Inc.	(23)	(131)	(379)	(533)
(Gains) losses reclassified out of AOCI	(76)	30	—	(46)
Tax benefit (expense)	49	3	36	88
BALANCE AT JANUARY 24, 2015	\$ 374	\$ (110)	\$ (78)	\$ 186

The net gains (losses) reclassified out of AOCI into the Consolidated Statements of Operations, with line item location, during each period were as follows (in millions):

	Three Months Ended		Six Months Ended		Line Item in Statements of Operations
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015	
Comprehensive Income Components	Income Before Taxes		Income Before Taxes		
Net unrealized gains on available-for-sale investments					
	\$ (19)	\$ 69	\$ (20)	\$ 76	Other income (loss), net
Net unrealized losses on cash flow hedging instruments					
Foreign currency derivatives	(4)	(21)	(6)	(24)	Operating expenses
Foreign currency derivatives	(1)	(5)	(2)	(6)	Cost of sales—service
	(5)	(26)	(8)	(30)	
Cumulative translation adjustment and actuarial gains and losses					
	—	—	(1)	—	Operating expenses
Total amounts reclassified out of AOCI	\$ (24)	\$ 43	\$ (29)	\$ 46	

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16. Income Taxes

The following table provides details of income taxes (in millions, except percentages):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Income before provision for income taxes	\$ 3,306	\$ 2,873	\$ 6,443	\$ 5,233
Provision for income taxes	\$ 159	\$ 476	\$ 866	\$ 1,008
Effective tax rate	4.8%	16.6%	13.4%	19.3%

As discussed further below, the effective tax rate for the three and six months ended January 23, 2016 reflected the Company's recognition of total benefits of approximately \$523 million related to a tax settlement with the Internal Revenue Service ("IRS") and the reinstatement of the U.S. federal research and development ("R&D") tax credit on December 18, 2015.

In the second quarter of fiscal 2016, the Protecting Americans from Tax Hikes Act of 2015 reinstated the U.S. federal R&D tax credit permanently. As a result, the effective tax rate for the three and six months ended January 23, 2016 reflected a tax benefit of \$72 million related to fiscal 2016 R&D expenses and a tax benefit of \$84 million related to fiscal 2015 R&D expenses.

In the second quarter of fiscal 2016, the IRS and the Company settled all outstanding items related to the audit of the Company's federal income tax returns for the fiscal years ended July 26, 2008 through July 31, 2010. As a result of the settlement, the Company recognized a net benefit to the provision for income taxes of \$367 million, which included a reduction in interest expense of \$21 million. The Company is no longer subject to U.S. federal income tax audit through fiscal 2010.

As a result of the IRS tax settlement, the amount of gross unrecognized tax benefits was reduced in the second quarter of fiscal 2016 by approximately \$563 million, of which \$188 million became certain as a result of completing the audit. As of January 23, 2016, the Company had \$1.6 billion of unrecognized tax benefits, of which \$1.3 billion, if recognized, would favorably impact the effective tax rate. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. The Company believes it is reasonably possible that certain foreign and state tax matters may be concluded in the next 12 months. Specific positions that may be resolved include issues involving transfer pricing and various other matters. The Company estimates that the unrecognized tax benefits at January 23, 2016 could be reduced by approximately \$200 million in the next 12 months.

17. Segment Information and Major Customers

(a) Revenue and Gross Margin by Segment

The Company conducts business globally and is primarily managed on a geographic basis consisting of three segments: the Americas, EMEA, and APJC. The Company's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to a segment based on the ordering location of the customer. The Company does not allocate research and development, sales and marketing, or general and administrative expenses to its segments in this internal management system because management does not include the information in its measurement of the performance of the operating segments. In addition, the Company does not allocate amortization and impairment of acquisition-related intangible assets, share-based compensation expense, significant litigation and other contingencies, impacts to cost of sales from purchase accounting adjustments to inventory, charges related to asset impairments and restructurings, and certain other charges to the gross margin for each segment because management does not include this information in its measurement of the performance of the operating segments.

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

Summarized financial information by segment for the three and six months ended January 23, 2016 and January 24, 2015, based on the Company's internal management system and as utilized by the Company's Chief Operating Decision Maker ("CODM"), is as follows (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Revenue:				
Americas	\$ 6,912	\$ 7,101	\$ 14,711	\$ 14,602
EMEA	3,088	3,091	6,175	6,093
APJC	1,927	1,744	3,723	3,486
Total	\$ 11,927	\$ 11,936	\$ 24,609	\$ 24,181
Gross margin:				
Americas	\$ 4,412	\$ 4,406	\$ 9,362	\$ 9,216
EMEA	2,005	1,910	3,987	3,825
APJC	1,189	1,052	2,267	2,077
Segment total	7,606	7,368	15,616	15,118
Unallocated corporate items	(174)	(278)	(352)	(695)
Total	\$ 7,432	\$ 7,090	\$ 15,264	\$ 14,423

Revenue in the United States was \$6.1 billion and \$6.0 billion for the three months ended January 23, 2016 and January 24, 2015, respectively, and was \$13.0 billion and \$12.6 billion for the six months ended January 23, 2016 and January 24, 2015, respectively.

(b) Revenue for Groups of Similar Products and Services

The Company designs and sells broad lines of products, provides services and delivers integrated solutions to develop and connect networks around the world, building the Internet. The Company groups its products and technologies into the following categories: Switching, NGN Routing, Collaboration, Data Center, Service Provider Video, Wireless, Security, and Other Products. These products, primarily integrated by Cisco IOS Software, link geographically dispersed local-area networks (LANs), metropolitan-area networks (MANs), and wide-area networks (WANs).

The following table presents revenue for groups of similar products and services (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Revenue:				
Switching	\$ 3,483	\$ 3,615	\$ 7,505	\$ 7,461
NGN Routing	1,845	1,764	3,638	3,713
Collaboration	1,019	991	2,134	1,941
Data Center	822	846	1,681	1,538
Service Provider Video ⁽¹⁾	662	776	1,512	1,647
Wireless	613	611	1,258	1,216
Security	462	416	947	871
Other	77	59	152	126
Product	8,983	9,078	18,827	18,513
Service	2,944	2,858	5,782	5,668
Total	\$ 11,927	\$ 11,936	\$ 24,609	\$ 24,181

⁽¹⁾ Includes SP Video CPE Business revenue of \$93 million (one month of operations) and \$361 million for the second quarter of fiscal 2016 and 2015, respectively and \$504 million and \$840 million for the first six months of fiscal 2016 and 2015, respectively.

The Company has made certain reclassifications to the product revenue amounts for prior periods to conform to the current period's presentation.

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

(c) Additional Segment Information

The majority of the Company's assets, excluding cash and cash equivalents and investments, were attributable to its U.S. operations as of each of January 23, 2016 and July 25, 2015. The Company's total cash and cash equivalents and investments held by various foreign subsidiaries were \$56.5 billion and \$53.4 billion as of January 23, 2016 and July 25, 2015, respectively, and the remaining \$3.9 billion and \$7.0 billion at the respective period ends were available in the United States.

Property and equipment information is based on the physical location of the assets. The following table presents property and equipment information for geographic areas (in millions):

	January 23, 2016	July 25, 2015
Property and equipment, net:		
United States	\$ 2,779	\$ 2,733
International	607	599
Total	<u>\$ 3,386</u>	<u>\$ 3,332</u>

18. Net Income per Share

The following table presents the calculation of basic and diluted net income per share (in millions, except per-share amounts):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Net income	\$ 3,147	\$ 2,397	\$ 5,577	\$ 4,225
Weighted-average shares—basic	5,070	5,117	5,075	5,115
Effect of dilutive potential common shares	27	43	31	44
Weighted-average shares—diluted	5,097	5,160	5,106	5,159
Net income per share—basic	\$ 0.62	\$ 0.47	\$ 1.10	\$ 0.83
Net income per share—diluted	\$ 0.62	\$ 0.46	\$ 1.09	\$ 0.82
Antidilutive employee share-based awards, excluded	98	83	133	156

Employee equity share options, unvested shares, and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options, unvested restricted stock, and restricted stock units. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are collectively assumed to be used to repurchase shares.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "momentum," "seeks," "estimates," "continues," "endeavors," "strives," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under "Part II, Item 1A. Risk Factors," and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

OVERVIEW

Cisco designs and sells broad lines of products, provides services and delivers integrated solutions to develop and connect networks around the world, building the Internet. Over the last 30-plus years, we have been the world's leader in connecting people, things and technologies - to each other and to the Internet - realizing our vision of changing the way the world works, lives, plays and learns.

Today, we have over 70,000 employees in over 400 offices worldwide who design, produce, sell, and deliver integrated products, services, and solutions. Over time, we have expanded to new markets that are a natural extension of our core networking business, as the network has become the platform for automating, orchestrating, integrating, and delivering an ever-increasing array of information technology (IT)-based products and services. A summary of our results is as follows (in millions, except percentages and per-share amounts):

	Three Months Ended			Six Months Ended		
	January 23, 2016	January 24, 2015	Variance	January 23, 2016	January 24, 2015	Variance
Revenue ⁽¹⁾	\$ 11,927	\$ 11,936	(0.1)%	\$ 24,609	\$ 24,181	1.8 %
Gross margin percentage	62.3%	59.4%	2.9 pts	62.0%	59.6%	2.4 pts
Research and development	\$ 1,509	\$ 1,529	(1.3)%	\$ 3,069	\$ 3,112	(1.4)%
Sales and marketing	\$ 2,286	\$ 2,308	(1.0)%	\$ 4,729	\$ 4,823	(1.9)%
General and administrative	\$ 176	\$ 490	(64.1)%	\$ 715	\$ 994	(28.1)%
Total research and development, sales and marketing, general and administrative	\$ 3,971	\$ 4,327	(8.2)%	\$ 8,513	\$ 8,929	(4.7)%
Total as a percentage of revenue	33.3%	36.3%	(3.0) pts	34.6%	36.9%	(2.3) pts
Amortization of purchased intangible assets included in operating expenses	\$ 71	\$ 72	(1.4)%	\$ 140	\$ 143	(2.1)%
Restructuring and other charges included in operating expenses	\$ 96	\$ 69	39.1 %	\$ 238	\$ 387	(38.5)%
Operating income as a percentage of revenue	27.6%	22.0%	5.6 pts	25.9%	20.5%	5.4 pts
Income tax percentage	4.8%	16.6%	(11.8) pts	13.4%	19.3%	(5.9) pts
Net income	\$ 3,147	\$ 2,397	31.3 %	\$ 5,577	\$ 4,225	32.0 %
Net income as a percentage of revenue	26.4%	20.1%	6.3 pts	22.7%	17.5%	5.2 pts
Earnings per share—diluted	\$ 0.62	\$ 0.46	34.8 %	\$ 1.09	\$ 0.82	32.9 %

⁽¹⁾ During the second quarter of fiscal 2016, we completed the sale of the Customer Premises Equipment portion of our Service Provider Video Connected Devices business ("SP Video CPE Business"). As a result, revenue from this portion of the Service Provider Video product category will not recur in future periods. Includes SP Video CPE Business revenue of \$93 million (one month of operations) and \$361 million for the second quarter of fiscal 2016 and 2015, respectively and \$504 million and \$840 million for the first six months of fiscal 2016 and 2015, respectively.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

In the second quarter of fiscal 2016, revenue was flat as compared with the second quarter of fiscal 2015. Within total revenue, product revenue decreased 1% while service revenue increased 3%. On November 20, 2015, we completed the sale of our SP Video CPE Business. Total company revenue, not including revenue from SP Video CPE products, for the second quarter of fiscal 2016 increased 2%. Total gross margin increased by 2.9 percentage points, driven by the sale of the lower margin SP Video CPE Business, lower amortization of purchased intangible assets, and productivity improvements. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses, collectively, decreased by 3.0 percentage points, reflecting the recognition of an approximate \$0.3 billion pre-tax gain from the sale of our SP Video CPE Business and benefits from foreign exchange. Operating income as a percentage of revenue increased by 5.6 percentage points, driven by the factors discussed above. Diluted earnings per share increased by 35% from the prior year, driven by a 31% increase in net income. In addition to the preceding items, a significant portion of the increase in net income was attributable to certain tax benefits of approximately \$0.5 billion. These tax benefits relate to our settlement with the IRS of all outstanding items related to the audit of our federal income tax returns covering the period from fiscal 2008 through fiscal 2010 and the permanent reinstatement of the U.S. federal R&D tax credit.

In the second quarter of fiscal 2016, revenue from the Americas decreased by \$0.2 billion compared with the second quarter of fiscal 2015, driven in large part by the sale of the SP Video CPE Business which also led to lower product revenue in the United States. Revenue in our APJC segment increased \$0.2 billion, led by product revenue growth in China. EMEA revenue was flat. We saw improvements in our revenue from many emerging countries, and in particular we experienced increased product revenue in the emerging countries of China, India and Mexico of 51%, 33% and 25%, respectively. Overall, the "BRICM" countries experienced, in the aggregate, product revenue growth of 15%, despite decreased product revenue in Brazil and Russia of 49% and 27%, respectively.

From a customer market standpoint, in the second quarter of fiscal 2016 we experienced product revenue declines in the public sector and enterprise markets. We believe our sales in the enterprise market were impacted by uncertainty in the macro environment, which led to a slowdown in customer spending, and by currency impacts. Our product revenue in the commercial market increased, which we believe was also impacted, to a lesser degree, by the uncertainty in the macro environment and currency impacts. Our product revenue in the service provider market was flat, as the impact of the sale of the SP Video CPE Business was offset by increased sales of our other products to this customer market.

During the prior two fiscal years we have encountered business challenges in the service provider market and certain emerging countries. Although we saw positive business momentum in these areas during the first half of fiscal 2016, we continue to monitor and assess the sustainability of improvements in these areas.

From a product category perspective, total company product revenue, not including SP Video CPE products, increased 2% year over year. This increase was led by product revenue growth in Security, NGN Routing and Collaboration products which grew 11%, 5% and 3%, respectively. Offsetting these increases, we experienced a 4% decrease in sales of Switching products and a 3% decrease in our Data Center products. We believe the decline in sales of our Switching products used in campus environments (which comprises the majority of this product category) and Data Center products were largely driven by the uncertainty in the macro environment, which led to a slowdown in customer spending.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Diluted earnings per share increased by 33% from the prior year, a result of a 32% increase in net income. Revenue increased 2%, with product and service revenue each increasing 2%. Total gross margin increased by 2.4 percentage points driven in part by the Rockstar patent portfolio charge of \$188 million (or 0.8 percentage points of the prior period revenue) recorded in the first quarter of fiscal 2015. As a percentage of revenue, research and development, sales and marketing, and general and administrative expenses collectively decreased by 2.3 percentage points. Operating income as a percentage of revenue increased by 5.4 percentage points. Net income for the first six months of fiscal 2016 benefited from a lower effective tax rate, from the tax benefits discussed above.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Strategy and Focus Areas

We see our customers, in every industry, increasingly using technology—and, specifically, the network—to grow their business, drive efficiencies, and try to gain a competitive advantage. In this increasingly digital world, data is the most strategic asset and is increasingly distributed across every organization and ecosystem—on customer premises, at the edge of the network, and in the cloud. The network also plays an increasingly important role enabling our customers to aggregate, automate, and draw insights from this highly distributed data where there is a premium on security and speed. This is driving them to adopt entirely new IT architectures and organizational structures. We understand how technology can deliver the outcomes our customers want to achieve, and our strategy is to lead our customers in their digital transition with solutions, including pervasive, industry-leading security and analytics, that intelligently connect nearly everything that can be connected.

To deliver on our strategy, we are focused on providing highly secure, automated and intelligent solutions built on infrastructure that connects data that is highly distributed (globally dispersed across organizations). Together with our ecosystem of partners and developers, we aim to provide the technology, services, and solutions that we believe will enable our customers to gain insight and advantage from this distributed data with scale, security and agility.

For a full discussion of our strategy and focus areas, see Item 1. Business in our Annual Report on Form 10-K for the year ended July 25, 2015.

Other Key Financial Measures

The following is a summary of our other key financial measures for the second quarter and first six months of fiscal 2016 (in millions, except days sales outstanding in accounts receivable (DSO) and annualized inventory turns):

	January 23, 2016	July 25, 2015
Cash and cash equivalents and investments	\$ 60,375	\$ 60,416
Deferred revenue	\$ 15,185	\$ 15,183
DSO	33 days	38 days
Inventories	\$ 1,362	\$ 1,627
Annualized inventory turns	12.6	12.1

	Six Months Ended	
	January 23, 2016	January 24, 2015
Cash provided by operating activities	\$ 6,688	\$ 5,374
Repurchases of common stock—stock repurchase program	\$ 2,469	\$ 2,221
Dividends	\$ 2,133	\$ 1,947

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended July 25, 2015, as updated as applicable in Note 2 to the Consolidated Financial Statements herein, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on these policies.

Revenue Recognition

Revenue is recognized when all of the following criteria have been met:

- *Persuasive evidence of an arrangement exists.* Contracts, Internet commerce agreements, and customer purchase orders are generally used to determine the existence of an arrangement.
- *Delivery has occurred.* Shipping documents and customer acceptance, when applicable, are used to verify delivery.
- *The fee is fixed or determinable.* We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- *Collectibility is reasonably assured.* We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. When a sale involves multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine the unit of accounting, and the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price. Revenue is recognized when the revenue recognition criteria for each unit of accounting are met. For hosting arrangements, we recognize subscription revenue ratably over the subscription period, while usage revenue is recognized based on utilization. Software subscription revenue is deferred and recognized ratably over the subscription term upon delivery of the first product and commencement of the term.

The amount of product and service revenue recognized in a given period is affected by our judgment as to whether an arrangement includes multiple deliverables and, if so, our valuation of the units of accounting for multiple deliverables. According to the accounting guidance prescribed in Accounting Standards Codification (ASC) 605, *Revenue Recognition*, we use vendor-specific objective evidence of selling price (VSOE) for each of those units, when available. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, we require that a substantial majority of the historical standalone transactions have the selling prices for a product or service fall within a reasonably narrow pricing range, generally evidenced by approximately 80% of such historical standalone transactions falling within plus or minus 15% of the median rates. When VSOE does not exist, we apply the selling price hierarchy to applicable multiple-deliverable arrangements. Under the selling price hierarchy, third-party evidence of selling price (TPE) will be considered if VSOE does not exist, and estimated selling price (ESP) will be used if neither VSOE nor TPE is available. Generally, we are not able to determine TPE because our go-to-market strategy differs from that of others in our markets, and the extent of our proprietary technology varies among comparable products or services from those of our peers. In determining ESP, we apply significant judgment as we weigh a variety of factors, based on the facts and circumstances of the arrangement. We typically arrive at an ESP for a product or service that is not sold separately by considering company-specific factors such as geographies, competitive landscape, internal costs, profitability objectives, pricing practices used to establish bundled pricing, and existing portfolio pricing and discounting.

Some of our sales arrangements have multiple deliverables containing software and related software support components. Such sales arrangements are subject to the accounting guidance in ASC 985-605, *Software-Revenue Recognition*.

As our business and offerings evolve over time, our pricing practices may be required to be modified accordingly, which could result in changes in selling prices, including both VSOE and ESP, in subsequent periods. There were no material impacts during the first six months of fiscal 2016, nor do we currently expect a material impact in the next 12 months on our revenue recognition due to any changes in our VSOE, TPE, or ESP.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Revenue deferrals relate to the timing of revenue recognition for specific transactions based on financing arrangements, service, support, and other factors. Financing arrangements may include sales-type, direct-financing, and operating leases, loans, and guarantees of third-party financing. Our deferred revenue for products was \$5.5 billion and \$5.4 billion as of January 23, 2016 and July 25, 2015, respectively. Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which typically is from one to three years. Advanced services revenue is recognized upon delivery or completion of performance milestones. Our deferred revenue for services was \$9.7 billion and \$9.8 billion as of January 23, 2016 and July 25, 2015, respectively.

We make sales to distributors which we refer to as two-tier systems of sales to the end customer. Revenue from distributors is recognized based on a sell-through method using information provided by them. Our distributors participate in various cooperative marketing and other programs, and we maintain estimated accruals and allowances for these programs. If actual credits received by our distributors under these programs were to deviate significantly from our estimates, which are based on historical experience, our revenue could be adversely affected.

Allowances for Receivables and Sales Returns

The allowances for receivables were as follows (in millions, except percentages):

	January 23, 2016	July 25, 2015
Allowance for doubtful accounts	\$ 325	\$ 302
<i>Percentage of gross accounts receivable</i>	<i>7.0%</i>	<i>5.4%</i>
Allowance for credit loss—lease receivables	\$ 248	\$ 259
<i>Percentage of gross lease receivables ⁽¹⁾</i>	<i>7.3%</i>	<i>7.2%</i>
Allowance for credit loss—loan receivables	\$ 80	\$ 87
<i>Percentage of gross loan receivables</i>	<i>3.7%</i>	<i>4.9%</i>

⁽¹⁾ Calculated as allowance for credit loss on lease receivables as a percentage of gross lease receivables and residual value before unearned income.

The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the receivable balances as well as external factors such as economic conditions that may affect a customer's ability to pay and expected default frequency rates, which are published by major third-party credit-rating agencies and are generally updated on a quarterly basis. We also consider the concentration of receivables outstanding with a particular customer in assessing the adequacy of our allowances for doubtful accounts. If a major customer's creditworthiness deteriorates, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our operating results.

The allowance for credit loss on financing receivables is also based on the assessment of collectibility of customer accounts. We regularly review the adequacy of the credit allowances determined either on an individual or a collective basis. When evaluating the financing receivables on an individual basis, we consider historical experience, credit quality and age of receivable balances, and economic conditions that may affect a customer's ability to pay. When evaluating financing receivables on a collective basis, we use expected default frequency rates published by a major third-party credit-rating agency as well as our own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk and correlation. Determining expected default frequency rates and loss factors associated with internal credit risk ratings, as well as assessing factors such as economic conditions, concentration of risk, and correlation, are complex and subjective. Our ongoing consideration of all these factors could result in an increase in our allowance for credit loss in the future, which could adversely affect our operating results. Both accounts receivable and financing receivables are charged off at the point when they are considered uncollectible.

A reserve for future sales returns is established based on historical trends in product return rates. The reserve for future sales returns as of January 23, 2016 and July 25, 2015 was \$118 million and \$129 million, respectively, and was recorded as a reduction of our accounts receivable. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Inventory Valuation and Liability for Purchase Commitments with Contract Manufacturers and Suppliers

Our inventory balance was \$1.4 billion and \$1.6 billion as of January 23, 2016 and July 25, 2015, respectively. Inventory is written down based on excess and obsolete inventories, determined primarily by future demand forecasts. Inventory write-downs are measured as the difference between the cost of the inventory and market, based upon assumptions about future demand, and are charged to the provision for inventory, which is a component of our cost of sales. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

We record a liability for firm, noncancelable, and unconditional purchase commitments with contract manufacturers and suppliers for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of January 23, 2016, the liability for these purchase commitments was \$180 million, compared with \$156 million as of July 25, 2015, and was included in other current liabilities.

Our provision for inventory was \$41 million and \$21 million for the first six months of fiscal 2016 and 2015, respectively. The provision for the liability related to purchase commitments with contract manufacturers and suppliers was \$94 million and \$59 million for the first six months of fiscal 2016 and 2015, respectively. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory write-downs, and our liability for purchase commitments with contract manufacturers and suppliers, and accordingly our profitability, could be adversely affected. We regularly evaluate our exposure for inventory write-downs and the adequacy of our liability for purchase commitments. Inventory and supply chain management remain areas of focus as we balance the need to maintain supply chain flexibility to help ensure competitive lead times with the risk of inventory obsolescence, particularly in light of current macroeconomic uncertainties and conditions and the resulting potential for changes in future demand forecast.

Loss Contingencies and Product Warranties

We are subject to the possibility of various losses arising in the ordinary course of business. We consider the likelihood of impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate information available to us to determine whether such accruals should be made or adjusted and whether new accruals are required.

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

We have recorded a liability for the expected remediation cost for certain products sold in prior fiscal years containing memory components manufactured by a single supplier between 2005 and 2010. In February 2014, on the basis of the growing number of failures as described in Note 12 (f) to the Consolidated Financial Statements, we decided to expand our approach, which resulted in a charge to product cost of sales of \$655 million being recorded for the second quarter of fiscal 2014. During the third quarter of fiscal 2015, we recorded an adjustment to product cost of sales of \$164 million to reduce the liability, reflecting net lower than previously estimated future costs to remediate the impacted customer products. Estimating this liability is complex and subjective, and if we experience changes in a number of underlying assumptions and estimates such as a change in claims compared with our expectations, or if the cost of servicing these claims is different than expected, our estimated liability may be impacted.

Our liability for product warranties, included in other current liabilities, was \$403 million as of January 23, 2016, compared with \$449 million as of July 25, 2015. Our products are generally covered by a warranty for periods ranging from 90 days to five years, and for some products we provide a limited lifetime warranty. We accrue for warranty costs as part of our cost of sales based on associated material costs, technical support labor costs, and associated overhead. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is estimated based primarily upon historical trends in the rate of customer cases and the cost to support the customer cases within the warranty period. Overhead cost is applied based on estimated time to support warranty activities.

The provision for product warranties during the first six months of fiscal 2016 and 2015 was \$322 million and \$355 million, respectively. If we experience an increase in warranty claims compared with our historical experience, or if the cost of servicing warranty claims is greater than expected, our profitability could be adversely affected.

Fair Value Measurements

Our fixed income and publicly traded equity securities, collectively, are reflected in the Consolidated Balance Sheets at a fair value of \$54.1 billion as of January 23, 2016, compared with \$53.5 billion as of July 25, 2015. Our fixed income investment portfolio as of January 23, 2016 consisted primarily of high quality investment-grade securities. See Note 8 to the Consolidated Financial Statements.

As described more fully in Note 9 to the Consolidated Financial Statements, a valuation hierarchy is based on the level of independent, objective evidence available regarding the value of the investments. It encompasses three classes of investments: Level 1 consists of securities for which there are quoted prices in active markets for identical securities; Level 2 consists of securities for which observable inputs other than Level 1 inputs are used, such as quoted prices for similar securities in active markets or quoted prices for identical securities in less active markets and model-derived valuations for which the variables are derived from, or corroborated by, observable market data; and Level 3 consists of securities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value.

Our Level 2 securities are valued using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. We use inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from independent pricing vendors, quoted market prices, or other sources to determine the ultimate fair value of our assets and liabilities. We use such pricing data as the primary input, to which we have not made any material adjustments during the periods presented, to make our assessments and determinations as to the ultimate valuation of our investment portfolio. We are ultimately responsible for the financial statements and underlying estimates.

The inputs and fair value are reviewed for reasonableness, may be further validated by comparison to publicly available information, and could be adjusted based on market indices or other information that management deems material to its estimate of fair value. The assessment of fair value can be difficult and subjective. However, given the relative reliability of the inputs we use to value our investment portfolio, and because substantially all of our valuation inputs are obtained using quoted market prices for similar or identical assets, we do not believe that the nature of estimates and assumptions affected by levels of subjectivity and judgment was material to the valuation of the investment portfolio as of January 23, 2016. Level 3 assets do not represent a significant portion of our total assets measured at fair value on a recurring basis as of January 23, 2016 and July 25, 2015.

Other-than-Temporary Impairments

We recognize an impairment charge when the declines in the fair values of our fixed income or publicly traded equity securities below their cost basis are judged to be other than temporary. The ultimate value realized on these securities, to the extent unhedged, is subject to market price volatility until they are sold.

If the fair value of a debt security is less than its amortized cost, we assess whether the impairment is other than temporary. An impairment is considered other than temporary if (i) we have the intent to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovery of its entire amortized cost basis, or (iii) we do not expect to recover the entire amortized cost of the security. If an impairment is considered other than temporary based on (i) or (ii) described in the prior sentence, the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If an impairment is considered other than temporary based on condition (iii), the amount representing credit loss, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security, will be recognized in earnings, and the amount relating to all other factors will be recognized in other comprehensive income (OCI). In estimating the amount and timing of cash flows expected to be collected, we consider all available information, including past events, current conditions, the remaining payment terms of the security, the financial condition of the issuer, expected defaults, and the value of underlying collateral.

For publicly traded equity securities, we consider various factors in determining whether we should recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

There were no impairment charges on our investments in publicly traded equity securities in the first six months of fiscal 2016 and 2015. For the first six months of fiscal 2016, we recognized impairment charges of \$3 million on our investments in fixed income securities, while there were no such impairment charges recognized in the first six months of fiscal 2015. Our ongoing consideration of all the factors described previously could result in additional impairment charges in the future, which could adversely affect our net income.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We also have investments in privately held companies, some of which are in the startup or development stages. Our investments in privately held companies as of January 23, 2016 were \$964 million, compared with \$897 million as of July 25, 2015, and were included in other assets. We monitor these investments for events or circumstances indicative of potential impairment, and we make appropriate reductions in carrying values if we determine that an impairment charge is required, based primarily on the financial condition and near-term prospects of these companies. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Our impairment charges on investments in privately held companies were \$56 million and \$3 million for the first six months of fiscal 2016 and 2015, respectively.

Goodwill and Purchased Intangible Asset Impairments

Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques. Goodwill represents a residual value as of the acquisition date, which in most cases results in measuring goodwill as an excess of the purchase consideration transferred plus the fair value of any noncontrolling interest in the acquired company over the fair value of net assets acquired, including contingent consideration. We perform goodwill impairment tests on an annual basis in the fourth fiscal quarter and between annual tests in certain circumstances for each reporting unit. The assessment of fair value for goodwill and purchased intangible assets is based on factors that market participants would use in an orderly transaction in accordance with the new accounting guidance for the fair value measurement of nonfinancial assets.

The goodwill recorded in the Consolidated Balance Sheets as of January 23, 2016 and July 25, 2015 was \$25.0 billion and \$24.5 billion, respectively. In response to changes in industry and market conditions, we could be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. There was no impairment of goodwill in the first six months of fiscal 2016 and 2015.

We make judgments about the recoverability of purchased intangible assets with finite lives whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of purchased intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Our impairment charges on purchased intangible assets were \$37 million and \$56 million for the first six months of fiscal 2016 and 2015, respectively. Our ongoing consideration of all the factors described previously could result in additional impairment charges in the future, which could adversely affect our net income.

Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rates differ from the statutory rate, primarily due to the tax impact of state taxes, foreign operations, R&D tax credits, domestic manufacturing deductions, tax audit settlements, nondeductible compensation, international realignments, and transfer pricing adjustments. Our effective tax rate was 4.8% and 16.6% in the second quarter of fiscal 2016 and 2015, respectively. Our effective tax rate was 13.4% and 19.3% in the first six months of fiscal 2016 and 2015, respectively.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by changes to domestic manufacturing deduction laws, regulations, or interpretations thereof; by expiration of or lapses in tax incentives; by transfer pricing adjustments, including the effect of acquisitions on our intercompany R&D cost-sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, treaties, or interpretations thereof, including possible changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The Organisation for Economic Co-operation and Development (OECD), an international association comprised of 34 countries, including the United States, has recently made changes to numerous long-standing tax principles. There can be no assurance that these changes, once adopted by countries, will not have an adverse impact on our provision for income taxes. As a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

Revenue

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Revenue:								
Product	\$ 8,983	\$ 9,078	\$ (95)	(1.0)%	\$ 18,827	\$ 18,513	\$ 314	1.7%
Percentage of revenue	75.3%	76.1%			76.5%	76.6%		
Service	2,944	2,858	86	3.0 %	5,782	5,668	114	2.0%
Percentage of revenue	24.7%	23.9%			23.5%	23.4%		
Total	<u>\$ 11,927</u>	<u>\$ 11,936</u>	<u>\$ (9)</u>	<u>(0.1)%</u>	<u>\$ 24,609</u>	<u>\$ 24,181</u>	<u>\$ 428</u>	<u>1.8%</u>

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Revenue:								
Americas	\$ 6,912	\$ 7,101	\$ (189)	(2.7)%	\$ 14,711	\$ 14,602	\$ 109	0.7%
Percentage of revenue	57.9%	59.5%			59.8%	60.4%		
EMEA	3,088	3,091	(3)	(0.1)%	6,175	6,093	82	1.3%
Percentage of revenue	25.9%	25.9%			25.1%	25.2%		
APJC	1,927	1,744	183	10.5 %	3,723	3,486	237	6.8%
Percentage of revenue	16.2%	14.6%			15.1%	14.4%		
Total	<u>\$ 11,927</u>	<u>\$ 11,936</u>	<u>\$ (9)</u>	<u>(0.1)%</u>	<u>\$ 24,609</u>	<u>\$ 24,181</u>	<u>\$ 428</u>	<u>1.8%</u>

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

For the second quarter of fiscal 2016 , as compared with the second quarter of fiscal 2015 , total revenue was flat. Total company revenue not including SP Video CPE products increased 2%. Product revenue decreased by 1% in total, but increased by 2% for total company product revenue not including SP Video CPE products. Service revenue increased by 3% . Our total revenue grew in our APJC geographic segment, while revenue declined in the Americas segment. The total revenue in our EMEA geographic segment was flat. The emerging countries of BRICM, in the aggregate, experienced a 15% product revenue growth, with growth in China, India and Mexico, partially offset by decreases in the other two BRICM countries.

We conduct business globally in numerous currencies. The direct effect of foreign currency fluctuations on revenue has not been material because our revenue is primarily denominated in U.S. dollars. However, if the U.S. dollar strengthens relative to other currencies, as was the case during the second quarter of fiscal 2016 , such strengthening could have an indirect effect on our revenue to the extent it raises the cost of our products to non-U.S. customers and thereby reduces demand. A weaker U.S. dollar could have the opposite effect. However, the precise indirect effect of currency fluctuations is difficult to measure or predict because our revenue is influenced by many factors in addition to the impact of such currency fluctuations. Our revenue in the second quarter of fiscal 2016 was adversely affected by the depreciation of certain currencies relative to the U.S. dollar and especially currencies in certain emerging countries, although the indirect effects are difficult to measure.

In addition to the impact of macroeconomic factors, including a reduced IT spending environment and reductions in spending by government entities, revenue by segment in a particular period may be significantly impacted by several factors related to revenue recognition, including the complexity of transactions such as multiple-element arrangements; the mix of financing arrangements provided to our channel partners and customers; and final acceptance of the product, system, or solution, among other factors. In addition, certain customers tend to make large and sporadic purchases, and the revenue related to these transactions may also be affected by the timing of revenue recognition, which in turn would impact the revenue of the relevant segment. As has been the case in certain of our emerging countries from time to time, customers require greater levels of financing arrangements, service, and support, and these activities may occur in future periods, which may also impact the timing of the recognition of revenue.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

For the first six months of fiscal 2016, as compared with the first six months of fiscal 2015, total revenue increased by 2%. Product and service revenue each increased by 2%. Our total revenue reflected growth across each of our geographic segments. The emerging countries of BRICM, in the aggregate, experienced 9% product revenue growth, with revenue growth in China, Mexico and India partially offset by decreases in the other two BRICM countries.

Product Revenue by Segment

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Product revenue:								
Americas	\$ 4,991	\$ 5,243	\$ (252)	(4.8)%	\$ 10,945	\$ 10,927	\$ 18	0.2%
Percentage of product revenue	55.6%	57.8%			58.1%	59.1%		
EMEA	2,454	2,480	(26)	(1.0)%	4,930	4,876	54	1.1%
Percentage of product revenue	27.3%	27.3%			26.2%	26.3%		
APJC	1,538	1,355	183	13.5 %	2,952	2,710	242	8.9%
Percentage of product revenue	17.1%	14.9%			15.7%	14.6%		
Total	<u>\$ 8,983</u>	<u>\$ 9,078</u>	<u>\$ (95)</u>	<u>(1.0)%</u>	<u>\$ 18,827</u>	<u>\$ 18,513</u>	<u>\$ 314</u>	<u>1.7%</u>

Americas

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The decrease in product revenue for the Americas segment was driven in large part by a decline of \$227 million in product sales related to our SP Video CPE Business, which we sold during the second quarter of fiscal year 2016. As a result, the second quarter of fiscal 2016 includes only one month of product revenue from our SP Video CPE Business. From a customer markets perspective, the decrease in product revenue in the Americas segment of 5% was led by declines in the public sector, service provider and enterprise markets. The product revenue decline in the public sector market was due primarily to lower sales to the U.S. federal government, partially offset by higher sales to state and local governments. The decline in sales to the service provider market was due to the sale of the SP Video CPE Business. We experienced product revenue growth in the commercial market in this geographic segment. From a country perspective, product revenue decreased by 1% in the United States, 49% in Brazil and 23% in Canada, partially offset by an increase of 25% in Mexico.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

The slight increase in product revenue in the Americas segment was led by growth in the commercial and enterprise markets and to a lesser extent, in the public sector market. These product revenue increases were partially offset by the decline in the service provider market in this segment. The decline in sales to the service provider market was due to lower revenue from SP Video CPE products, due to the sale of this business. From a country perspective, product revenue increased by 3% in the United States and 34% in Mexico, partially offset by decreases of 42% in Brazil and 26% in Canada.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

EMEA

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The decrease in product revenue for the EMEA segment was driven by a decline of \$28 million in sales related to our SP Video CPE Business. From a customer markets perspective, product revenue in the EMEA segment decreased by 1% , driven by declines in the service provider, enterprise and public sector markets, partially offset by product revenue growth in the commercial market. The decline in sales to the service provider market was due primarily to the sale of the SP Video CPE Business. Product revenue from the emerging countries within EMEA decreased by 4%, led by a decline in Russia of 27%. Product revenue for the remainder of the EMEA, which primarily consists of countries in Western Europe, was flat.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

The increase in product revenue in the EMEA segment of 1% was led by growth in the commercial market and, to a lesser extent, in the public sector market. We experienced product revenue declines in the service provider and enterprise markets in this segment. Product revenue from outside the group of emerging countries within EMEA grew by 2%, while product revenue from the emerging countries within EMEA declined by 3%, led by a 33% decrease in Russia.

APJC

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The increase in product revenue in the APJC segment of 14% was led by strong growth in the service provider market and, to a lesser extent, in the public sector and commercial markets. These increases were partially offset by a decline in the enterprise market. From a country perspective, product revenue increased by 51% in China (driven by higher sales of Service Provider Video products), 33% in India and 20% in Australia partially offset by a product revenue decrease of 12% in Japan. Product sales for this geographic segment were adversely impacted by a \$13 million decrease in sales related to our SP Video CPE Business.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Product revenue in the APJC segment increased by 9% . The product revenue growth was led by solid growth in the service provider market and, to a lesser extent, in the commercial and public sector markets. These increases were partially offset by a decline in the enterprise market. From a country perspective, product revenue increased by 34% in China, 22% in India and 6% in Australia. We experienced product revenue decline of 10% in Japan.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Product Revenue by Groups of Similar Products

In addition to the primary view on a geographic basis, we also prepare financial information related to groups of similar products and customer markets for various purposes. Our product categories consist of the following categories (with subcategories in parentheses): Switching (fixed switching, modular switching, and storage); NGN Routing (high-end routers, mid-range and low-end routers, and other NGN Routing products); Collaboration (unified communications, Cisco TelePresence, and conferencing); Data Center; Wireless; Service Provider Video (video software and solutions, and cable access); Security; and Other Products. The Other Products category consists primarily of emerging technology products and other networking products.

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Product revenue:								
Switching	\$ 3,483	\$ 3,615	\$ (132)	(3.7)%	\$ 7,505	\$ 7,461	\$ 44	0.6 %
Percentage of product revenue	38.8%	39.8%			39.9%	40.3%		
NGN Routing	1,845	1,764	81	4.6 %	3,638	3,713	(75)	(2.0)%
Percentage of product revenue	20.5%	19.4%			19.3%	20.1%		
Collaboration	1,019	991	28	2.8 %	2,134	1,941	193	9.9 %
Percentage of product revenue	11.3%	10.9%			11.3%	10.5%		
Data Center	822	846	(24)	(2.8)%	1,681	1,538	143	9.3 %
Percentage of product revenue	9.2%	9.3%			8.9%	8.3%		
Wireless	613	611	2	0.3 %	1,258	1,216	42	3.5 %
Percentage of product revenue	6.8%	6.7%			6.7%	6.6%		
Service Provider Video ⁽¹⁾	662	776	(114)	(14.7)%	1,512	1,647	(135)	(8.2)%
Percentage of product revenue	7.4%	8.6%			8.0%	8.9%		
Security	462	416	46	11.1 %	947	871	76	8.7 %
Percentage of product revenue	5.1%	4.6%			5.0%	4.7%		
Other	77	59	18	30.5 %	152	126	26	20.6 %
Percentage of product revenue	0.9%	0.7%			0.9%	0.6%		
Total	\$ 8,983	\$ 9,078	\$ (95)	(1.0)%	\$ 18,827	\$ 18,513	\$ 314	1.7 %

⁽¹⁾ Includes SP Video CPE Business revenue of \$93 million (one month of operations) and \$361 million for the second quarter of fiscal 2016 and 2015, respectively and \$504 million and \$840 million for the first six months of fiscal 2016 and 2015, respectively.

Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Switching

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

We believe, the decrease in revenue in our Switching product category of 4% , or \$132 million was driven in large part by the uncertainty in the macro environment which led to a slowdown of customer spending, impacting sales for our Switching products used in campus environments which comprise the majority of this portfolio. This impact was partially offset by strength in our Application Centric Infrastructure portfolio.

In terms of subcategories, the decrease was driven by a 13%, or \$147 million, decrease in revenue from our modular switches and, to a lesser extent, a 19%, or \$29 million, decrease in sales of storage products. Revenue from our modular switches decreased due primarily to lower sales of most of the Cisco Catalyst Series Switches and Cisco Nexus 7000 Series Switches, partially offset by growth in Cisco Nexus 9500 Series Switches within this product category. We experienced an increase in revenue from LAN fixed-configuration switches of 2%, or \$44 million, driven primarily by higher sales of our Cisco Catalyst 3850 Series Switches, Cisco Catalyst 3650 Series Switches, Cisco Nexus 9300 Series Switches, and Cisco Nexus 3000 Series Switches, partially offset by a decrease in sales of certain other products in this portfolio.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue in our Switching product category increased by 1% , or \$44 million , driven by a 6%, or \$287 million, increase in revenue from our LAN fixed-configuration switches partially offset by a 6%, or \$148 million, decrease in revenue from our modular switches and a 31%, or \$95 million, decrease in sales of storage products. Revenue from LAN fixed-configuration switches increased due to higher sales of our Cisco Catalyst 3850 Series Switches, Cisco Catalyst 3650 Series Switches, Cisco Nexus 9300 Series Switches, and Cisco Nexus 3000 Series Switches. Revenue from our modular switches decreased driven by lower sales of Cisco Catalyst 6500-E Series Switches and Cisco Nexus 7000 Series Switches.

NGN Routing

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Revenue in our NGN Routing product category increased by 5% , or \$81 million , driven by a 5%, or \$56 million, increase in revenue from our high-end router products and a 6%, or \$33 million, increase in revenue from our midrange and low-end router products. These increases were partially offset by a 9%, or \$8 million, decrease in revenue from what we categorize as other NGN Routing products. The increase in revenue from our high-end router product was driven by increased in sales of our Cisco Carrier Routing Systems platform and, to a lesser extent, increased in sales within our Cisco Aggregation Services Router category. Revenue from our midrange and low-end router products increased due to higher sales of our Cisco Integrated Services Routers products and certain of our access products. The decrease in revenue from other NGN Routing products was due in large part to lower sales of certain optical networking products.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

The decrease in revenue in our NGN Routing product category of 2% , or \$75 million , was driven by a 7%, or \$156 million, decrease in revenue from our high-end router products partially offset by a 21%, or \$44 million, increase in revenue from other NGN Routing products and a 3%, or \$37 million, increase in revenue from our midrange and low-end router products. Revenue from high-end router products decreased due to a decrease in revenue from most of our products within our Cisco Aggregation Services Routers category and our Cisco Network Convergence System platform, partially offset by higher sales of our CRS-X products. Revenue from other NGN Routing products increased due to higher sales of certain optical networking products. The increase in revenue from our midrange and low-end router products was due to higher sales of our Cisco Integrated Services Routers products and certain of our access products.

Collaboration

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Revenue from our Collaboration product category increased by 3% , or \$28 million , due primarily to increased revenue from our Conferencing products and, to a lesser extent, a slight increase in revenue from our Cisco TelePresence products, partially offset by decreased revenue from our Unified Communications products. The growth in Conferencing revenue was a result of higher usage and recurring revenue from WebEx. Revenue from our Telepresence products increased slightly due to higher revenue from our infrastructure products as a result of new offerings. The revenue decline in Unified Communications was due to lower sales of phones. We continue to increase the amount of deferred revenue and the proportion of recurring revenue related to our Collaboration product category.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue in our Collaboration product category increased by 10% , or \$193 million , driven by growth across the entire portfolio within this product category. The growth in Conferencing revenue was a result of higher usage and recurring revenue. Revenue from Cisco TelePresence products grew due to higher revenue in endpoint products as momentum continued as a result of new product introductions. The increase in Unified Communications revenue was driven by higher software revenue and increased revenue from phones due to customer migration to our newer endpoints.

Data Center

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The decrease in revenue in our Data Center product category of 3% , or \$24 million , was primarily driven by a decrease in sales of our Cisco Unified Computing System products, with declines in the public sector, service provider and enterprise markets. We believe the uncertainty in the macro environment which led to a slowdown of customer spending adversely impacted sales of this product category.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue in our Data Center product category grew by 9% , or \$143 million , with sales growth of our Cisco Unified Computing System products occurring across all geographic segments and customer markets.

Wireless

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Revenue in our Wireless product category was flat as continued growth in sales of Meraki products within this product category was offset by the decrease in sales of our controllers and access point products. We continue to increase the amount of deferred revenue and the proportion of recurring revenue related to our Wireless product category.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue in our Wireless product category increased by 3% , or \$42 million , due primarily to higher sales of Meraki products within this product category and, to a lesser extent, growth in sales of certain of our access point products.

Service Provider Video

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The decrease in revenue from our Service Provider Video product category of 15% , or \$114 million , was driven by a decrease in sales of \$268 million related to our SP Video CPE Business which we sold during the second quarter of fiscal 2016. This decrease was partially offset by an increase in revenue from our video software and solutions and cable access products, driven largely by strength in APJC, particularly in China.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue from our Service Provider Video product category decreased by 8% , or \$135 million , due to a decrease in sales related to the SP Video CPE Business, partially offset by an increase in revenue from Service Provider Video software and solutions and cable access products.

Security

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Revenue in our Security product category was up 11% , or \$46 million , driven by higher sales of advanced threat security, unified threat management and web security products, partially offset by a decrease in revenue from our traditional firewall products. We continue to increase the amount of deferred revenue and the proportion of recurring revenue related to our Security product category.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Revenue from our Security product category grew 9% , or \$76 million , driven by similar factors as discussed in the three-month period immediately above.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Service Revenue by Segment

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Service revenue:								
Americas	\$ 1,921	\$ 1,858	\$ 63	3.4%	\$ 3,766	\$ 3,675	\$ 91	2.5 %
Percentage of service revenue	65.3%	65.0%			65.2%	64.8%		
EMEA	634	611	23	3.8%	1,245	1,217	28	2.3 %
Percentage of service revenue	21.5%	21.4%			21.5%	21.5%		
APJC	389	389	—	—%	771	776	(5)	(0.6)%
Percentage of service revenue	13.2%	13.6%			13.3%	13.7%		
Total	\$ 2,944	\$ 2,858	\$ 86	3.0%	\$ 5,782	\$ 5,668	\$ 114	2.0 %

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Service revenue grew 3% , with revenue increasing in the EMEA and Americas geographic segments, while in the APJC segment service revenue was flat. Worldwide technical support services revenue increased by 2% and worldwide advanced services revenue increased by 5%, driven by growth in transaction revenues. Technical support services revenue experienced growth across all geographic segments. Renewals and technical support service contract initiations associated with product sales provided an installed base of equipment being serviced which, in concert with new service offerings, were the primary factors driving the revenue increases. Advanced services revenue, which relates to professional services for specific customer network needs, grew in the Americas and EMEA segments.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Service revenue increased in the Americas and EMEA geographic segments, while service revenue declined in the APJC segment. Worldwide technical support services revenue increased slightly and worldwide advanced services experienced 7% revenue growth. Technical support services revenue grew slightly in our EMEA segment and was flat in the Americas and APJC segments. Advanced services revenue grew in the Americas and EMEA segments but declined in the APJC segment.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross Margin

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

	Three Months Ended				Six Months Ended			
	AMOUNT		PERCENTAGE		AMOUNT		PERCENTAGE	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Gross margin:								
Product	\$ 5,503	\$ 5,272	61.3%	58.1%	\$ 11,494	\$ 10,788	61.1%	58.3%
Service	1,929	1,818	65.5%	63.6%	3,770	3,635	65.2%	64.1%
Total	<u>\$ 7,432</u>	<u>\$ 7,090</u>	<u>62.3%</u>	<u>59.4%</u>	<u>\$ 15,264</u>	<u>\$ 14,423</u>	<u>62.0%</u>	<u>59.6%</u>

Product Gross Margin

The following table summarizes the key factors that contributed to the change in product gross margin percentage for the second quarter and first six months of fiscal 2016 as compared with the corresponding prior year period:

	Product Gross Margin Percentage	
	Three Months Ended	Six Months Ended
Fiscal 2015	58.1 %	58.3 %
Productivity ⁽¹⁾	3.7 %	3.7 %
Rockstar patent portfolio charge	— %	1.0 %
Amortization of purchased intangible assets	1.2 %	0.9 %
SP Video CPE Business impact	1.2 %	0.7 %
Product pricing	(2.1)%	(2.1)%
Mix of products sold	(0.8)%	(1.4)%
Fiscal 2016	<u>61.3 %</u>	<u>61.1 %</u>

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

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Product gross margin increased by 3.2 percentage points as compared with the second quarter of fiscal 2015. The increase in product gross margin was due to productivity improvements, which were driven by value engineering efforts; favorable component pricing; continued operational efficiency in manufacturing operations and lower warranty expense. Value engineering is the process by which production costs are reduced through component redesign, board configuration, test processes, and transformation processes. Our product gross margin also benefited from lower amortization expense/impairment charges related to acquisition-related intangible assets, and the sale during the second quarter of fiscal 2016 of our lower margin SP Video CPE Business. The various factors contributing to the product gross margin increase were partially offset by unfavorable impacts from product pricing, which were driven by typical market factors and impacted each of our geographic segments and customer markets and unfavorable mix of products sold. The unfavorable mix of products sold was primarily driven by higher sales of Service Provider Video products (not including the CPE Business) and lower sales of Switching products.

Our future gross margins could be impacted by our product mix and could be adversely affected by further growth in sales of products that have lower gross margins, such as Cisco Unified Computing System products. Our gross margins may also be impacted by the geographic mix of our revenue and, as was the case in the first six months of fiscal 2016 and in fiscal 2015, may be adversely affected by product pricing attributable to competitive factors. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain, which in turn could negatively affect gross margin. If any of the preceding factors that in the past have negatively impacted our gross margins arise in future periods, our gross margins could continue to decline.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Product gross margin increased by 2.8 percentage points as compared with the first six months of fiscal 2015 . The increase was due to productivity improvements driven by similar factors as discussed in the three-month period immediately above. Additionally, gross margin increased due to the impact of a \$188 million charge to product cost of sales recorded in the first quarter of fiscal 2015 related to the Rockstar patent portfolio, the impact of impairment charges recorded in second quarter of fiscal 2015, lower amortization expense related to acquisition-related intangible assets, and the sale during the second quarter of fiscal 2016 of our lower margin SP Video CPE Business. These factors were partially offset by unfavorable impacts from product pricing and unfavorable mix of products sold. The unfavorable product mix impact was due to increased revenue from our relatively lower margin Cisco Unified Computing System products, an unfavorable mix impact from our core products, and higher sales from our Service Provider Video products (not including the CPE Business).

Service Gross Margin

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

Our service gross margin percentage increased by 1.9 percentage points as compared with the second quarter of fiscal 2015 due to lower headcount-related costs, higher sales volume and, to a lesser extent, lower outside services costs. These benefits to gross margin were partially offset by increased partner delivery costs and unfavorable mix. The mix impacts were due to our lower gross margin advanced services business contributing a higher proportion of service revenue for the second quarter of fiscal 2016 , as compared with second quarter of fiscal 2015 .

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

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

Service gross margin percentage increased by 1.1 percentage points as compared with the first six months of fiscal 2015 , due to decreased headcount-related costs and higher sales volume. These benefits to gross margin were partially offset by increased partner delivery costs and unfavorable mix. The mix impacts were driven by similar factors as discussed in the three month period immediately above.

Gross Margin by Segment

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

	Three Months Ended				Six Months Ended			
	AMOUNT		PERCENTAGE		AMOUNT		PERCENTAGE	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Gross margin:								
Americas	\$ 4,412	\$ 4,406	63.8%	62.0%	\$ 9,362	\$ 9,216	63.6%	63.1%
EMEA	2,005	1,910	64.9%	61.8%	3,987	3,825	64.6%	62.8%
APJC	1,189	1,052	61.7%	60.3%	2,267	2,077	60.9%	59.6%
Segment total	7,606	7,368	63.8%	61.7%	15,616	15,118	63.5%	62.5%
Unallocated corporate items ⁽¹⁾	(174)	(278)			(352)	(695)		
Total	\$ 7,432	\$ 7,090	62.3%	59.4%	\$ 15,264	\$ 14,423	62.0%	59.6%

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

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Three Months Ended January 23, 2016 Compared with Three Months Ended January 24, 2015

The Americas segment experienced a gross margin percentage increase due primarily to the sale of the lower margin SP Video CPE Business. In this geographic segment, productivity improvements were substantially offset by unfavorable impacts from pricing and product mix.

The gross margin percentage increase in our EMEA segment was due primarily to the impact of productivity improvements in this geographic segment and the sale of the SP Video CPE Business. Partially offsetting these favorable impacts to gross margin were negative impacts from pricing and an unfavorable product mix. Higher service gross margin also contributed to the increase in the overall gross margin in this segment.

Our APJC segment gross margin percentage increased primarily due to the impact of productivity improvements partially offset by unfavorable impacts from pricing and mix. The unfavorable mix impact was driven primarily by an increase in revenue from Service Provider Video products (not including the CPE Business).

The gross margin percentage for a particular segment may fluctuate, and period-to-period changes in such percentages may or may not be indicative of a trend for that segment. Our product and service gross margins may be impacted by economic downturns or uncertain economic conditions as well as our movement into new market opportunities, and could decline if any of the factors that impact our gross margins are adversely affected in future periods.

Six Months Ended January 23, 2016 Compared with Six Months Ended January 24, 2015

We experienced a gross margin percentage increase in our Americas segment due to productivity improvements and the sale of the SP Video CPE Business, partially offset by unfavorable impacts from pricing and mix. The unfavorable mix impact in this geographic segment was driven by an increase in revenue from our relatively lower margin Cisco Unified Computing System products and an unfavorable mix from our NGN Routing products.

The gross margin percentage increase in our EMEA segment was due primarily to the impact of productivity improvements in this geographic segment and the sale of the lower margin SP Video CPE Business. Partially offsetting these favorable impacts to gross margin were negative impacts from pricing and an unfavorable product mix. Higher service gross margin also contributed to the increase in the overall gross margin in this segment.

The APJC segment gross margin percentage increased due to productivity improvements partially offset by unfavorable impacts from pricing and mix. The unfavorable mix impact was driven by an increase in revenue from our Service Provider Video products (not including the CPE Business) and an unfavorable mix within our NGN routing products.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors That May Impact Revenue and Gross Margin

Product revenue may continue to be affected by factors, including global economic downturns and related market uncertainty, that have resulted in reduced IT-related capital spending in certain segments within our enterprise, service provider, public sector, and commercial markets; changes in the geopolitical environment and global economic conditions; competition, including price-focused competitors from Asia, especially from China; new product introductions; sales cycles and product implementation cycles; changes in the mix of our customers between service provider and enterprise markets; changes in the mix of direct sales and indirect sales; variations in sales channels; and final acceptance criteria of the product, system, or solution as specified by the customer. Sales to the service provider market have been and may be in the future characterized by large and sporadic purchases, especially relating to our NGN Routing sales and sales of certain products within our Collaboration, Data Center, and Service Provider Video product categories. In addition, service provider customers typically have longer implementation cycles; require a broader range of services, including network design services; and often have acceptance provisions that can lead to a delay in revenue recognition. Certain of our customers in certain emerging countries also tend to make large and sporadic purchases, and the revenue related to these transactions may similarly be affected by the timing of revenue recognition. As we focus on new market opportunities, customers may require greater levels of financing arrangements, service, and support, especially in certain emerging countries, which in turn may result in a delay in the timing of revenue recognition. To improve customer satisfaction, we continue to focus on managing our manufacturing lead-time performance, which may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter revenue and operating results.

Product revenue may also be adversely affected by fluctuations in demand for our products, especially with respect to telecommunications service providers and Internet businesses, whether or not driven by any slowdown in capital expenditures in the service provider market; price and product competition in the communications and information technology industry; introduction and market acceptance of new technologies and products; adoption of new networking standards; and financial difficulties experienced by our customers. We may, from time to time, experience manufacturing issues that create a delay in our suppliers' ability to provide specific components, resulting in delayed shipments. To the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods when we and our suppliers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters are not remediated within the same quarter. For additional factors that may impact product revenue, see "Part II, Item 1A. Risk Factors."

Our distributors participate in various cooperative marketing and other programs. Increased sales to our distributors generally result in greater difficulty in forecasting the mix of our products and, to a certain degree, the timing of orders from our customers. We recognize revenue for sales to our distributors generally based on a sell-through method using information provided by them, and we maintain estimated accruals and allowances for all cooperative marketing and other programs.

Product gross margin may be adversely affected in the future by changes in the mix of products sold, including periods of increased growth of some of our lower margin products; introduction of new products, including products with price-performance advantages and new business models for our offerings such as other-as-a-service ("XaaS"); our ability to reduce production costs; entry into new markets, including markets with different pricing structures and cost structures, as a result of internal development or through acquisitions; changes in distribution channels; price competition, including competitors from Asia, especially those from China; changes in geographic mix of our product revenue; the timing of revenue recognition and revenue deferrals; sales discounts; increases in material or labor costs, including share-based compensation expense; excess inventory and obsolescence charges; warranty costs; changes in shipment volume; loss of cost savings due to changes in component pricing; effects of value engineering; inventory holding charges; and the extent to which we successfully execute on our strategy and operating plans. Additionally, our manufacturing-related costs may be negatively impacted by constraints in our supply chain. Service gross margin may be impacted by various factors such as the change in mix between technical support services and advanced services; the timing of technical support service contract initiations and renewals; share-based compensation expense; and the timing of our strategic investments in headcount and resources to support this business.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

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

	Three Months Ended				Six Months Ended			
	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent	January 23, 2016	January 24, 2015	Variance in Dollars	Variance in Percent
Research and development	\$ 1,509	\$ 1,529	\$ (20)	(1.3)%	\$ 3,069	\$ 3,112	\$ (43)	(1.4)%
<i>Percentage of revenue</i>	<i>12.7%</i>	<i>12.8%</i>			<i>12.5%</i>	<i>12.9%</i>		
Sales and marketing	2,286	2,308	(22)	(1.0)%	4,729	4,823	(94)	(1.9)%
<i>Percentage of revenue</i>	<i>19.2%</i>	<i>19.3%</i>			<i>19.2%</i>	<i>19.9%</i>		
General and administrative	176	490	(314)	(64.1)%	715	994	(279)	(28.1)%
<i>Percentage of revenue</i>	<i>1.5%</i>	<i>4.1%</i>			<i>2.9%</i>	<i>4.1%</i>		
Total	\$ 3,971	\$ 4,327	\$ (356)	(8.2)%	\$ 8,513	\$ 8,929	\$ (416)	(4.7)%
<i>Percentage of revenue</i>	<i>33.3%</i>	<i>36.3%</i>			<i>34.6%</i>	<i>36.9%</i>		

R&D Expenses

R&D expenses decreased for the second quarter and first six months of fiscal 2016 , as compared with the corresponding periods of fiscal 2015 , primarily due to lower acquisition-related costs and, to a lesser extent, lower discretionary spending.

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

Sales and Marketing Expenses

Sales and marketing expenses decreased for the second quarter of fiscal 2016 , as compared with the second quarter of fiscal 2015 , due to lower contracted services. For the first six months of fiscal 2016 , as compared with the first six months of fiscal 2015 , sales and marketing expenses decreased due to lower discretionary spending, lower contracted services and lower headcount-related expenses.

G&A Expenses

G&A expenses decreased in the second quarter and first six months of fiscal 2016 , as compared with the corresponding periods of fiscal 2015 , primarily due to the \$286 million pre-tax gain from the sale of our SP Video CPE Business . Lower contracted services and timing of corporate-level expenses, which tend to vary from period to period, also contributed to the decrease. Corporate-level expenses included operational infrastructure activities such as IT project implementations, which included investments in our global data center infrastructure, and investments related to operational and financial systems.

Effect of Foreign Currency

In the second quarter of fiscal 2016 , foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by approximately \$149 million , or approximately 3.4% , compared with the second quarter of fiscal 2015 .

In the first six months of fiscal 2016 , foreign currency fluctuations, net of hedging, decreased the combined R&D, sales and marketing, and G&A expenses by approximately \$356 million , or approximately 4.0% , compared with the first six months of fiscal 2015 .

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Headcount

Our headcount as of January 23, 2016 was 71,657, which represents a decrease of 406 employees in the second quarter of fiscal 2016 and a decrease of 176 employees in the first six months of fiscal 2016, as compared with the total headcount at the end of fiscal 2015. The decrease for both periods was due to headcount reductions from the sale of the SP Video CPE Business, from attrition and from our restructuring plan announced in August 2014. These headcount reductions were partially offset by headcount additions from targeted hiring in key growth areas in engineering, services and sales, and headcount additions from our recent acquisitions.

Share-Based Compensation Expense

The following table presents share-based compensation expense (in millions):

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Cost of sales—product	\$ 16	\$ 11	\$ 29	\$ 22
Cost of sales—service	35	34	73	71
Share-based compensation expense in cost of sales	51	45	102	93
Research and development	107	105	221	224
Sales and marketing	126	114	265	261
General and administrative	47	42	104	101
Restructuring and other charges	(1)	2	14	(2)
Share-based compensation expense in operating expenses	279	263	604	584
Total share-based compensation expense	\$ 330	\$ 308	\$ 706	\$ 677

The increase in share-based compensation expense in the second quarter of fiscal 2016, as compared with the second quarter of fiscal 2015, was due primarily to the timing of the RSU grants. The increase in share-based compensation expense in the first six months of fiscal 2016, as compared with the first six months of fiscal 2015, was due primarily to the timing of the RSU grants and higher expense associated with accelerated and modified awards, partially offset by lower expense related to equity awards assumed with respect to our recent acquisitions.

Amortization of Purchased Intangible Assets

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

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Amortization of purchased intangible assets:				
Cost of sales	\$ 139	\$ 242	\$ 285	\$ 431
Operating expenses	71	72	140	143
Total	\$ 210	\$ 314	\$ 425	\$ 574

Amortization of purchased intangible assets decreased for the second quarter and first six months of fiscal 2016, as compared with the corresponding periods of fiscal 2015, due to certain purchased intangible assets having become fully amortized or impaired and impairment charges recorded in the second quarter of fiscal 2015, partially offset by amortization of purchased intangible assets from our recent acquisitions.

The fair value of acquired technology and patents, as well as acquired technology under development, is determined at acquisition date primarily using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations are typically derived from a weighted-average cost of capital analysis and then adjusted to reflect risks inherent in the development lifecycle as appropriate. We consider the pricing model for products related to these acquisitions to be standard within the high-technology communications industry, and the applicable discount rates represent the rates that market participants would use for valuation of such intangible assets.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Restructuring and Other Charges

In the second quarter and first six months of fiscal 2016 , we incurred restructuring and other charges of approximately \$95 million net of a \$1 million credit to cost of sales and \$236 million net of a \$2 million credit to cost of sales, respectively. These charges were related primarily to employee severance charges for employees impacted by the restructuring action announced in August 2014, which is substantially complete. We plan to reinvest substantially all of the cost savings from the restructuring actions in key growth areas of our business such as data center, software, security, and cloud. The overall cost savings from these restructuring actions were not material for the periods presented and are not expected to be material for future periods.

In the second quarter and first six months of fiscal 2015 , we incurred restructuring and other charges of approximately \$69 million and \$387 million , respectively, which were related primarily to employee severance charges for employees impacted by the restructuring action announced in August 2014. See Note 5 to the Consolidated Financial Statements.

Operating Income

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

	Three Months Ended		Six Months Ended	
	January 23, 2016	January 24, 2015	January 23, 2016	January 24, 2015
Operating income	\$ 3,294	\$ 2,622	\$ 6,373	\$ 4,964
Operating income as a percentage of revenue	27.6%	22.0%	25.9%	20.5%

For the second quarter of fiscal 2016 , as compared with the second quarter of fiscal 2015 , operating income increased by 26% , and as a percentage of revenue operating income increased by 5.6 percentage points. The increase in absolute dollars and as a percentage of revenue resulted primarily from a gross margin increase driven by impairment charges recorded in the second quarter of fiscal 2015 , lower amortization expense related to acquisition-related intangible assets, and the \$286 million pre-tax gain from the sale of our SP Video CPE Business . The increase as a percentage of revenue was also driven by the sale of the lower margin SP Video CPE Business during the second quarter of fiscal 2016.

For the first six months of fiscal 2016 , as compared with the first six months of fiscal 2015 , operating income increased by 28% , and as a percentage of revenue operating income increased by 5.4 percentage points. The increase resulted from the following: an increase in revenue; a gross margin percentage increase, driven in part by the Rockstar patent portfolio charge of \$188 million (or 0.8 percentage points of the prior period revenue), impairment charges recorded in the second quarter of fiscal 2015 , and lower amortization expense related to acquisition-related intangible assets; the \$286 million pre-tax gain from the sale of our SP Video CPE Business and a decrease in restructuring and other charges related to the restructuring action announced in August 2014.

Interest and Other Income (Loss), Net

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

	Three Months Ended			Six Months Ended		
	January 23, 2016	January 24, 2015	Variance in Dollars	January 23, 2016	January 24, 2015	Variance in Dollars
Interest income	\$ 237	\$ 189	\$ 48	\$ 462	\$ 368	\$ 94
Interest expense	(162)	(139)	(23)	(321)	(278)	(43)
Interest income (expense), net	\$ 75	\$ 50	\$ 25	\$ 141	\$ 90	\$ 51

For the second quarter and first six months of fiscal 2016 , interest income increased by 25% and 26% , respectively, compared with the corresponding periods in fiscal 2015 , driven by an increase in our portfolio of cash, cash equivalents, and fixed income investments as well as higher yields on our portfolio of cash and investments. Interest expense in the second quarter and first six months of fiscal 2016 , compared with the corresponding periods in fiscal 2015 , was higher driven by higher average debt balances.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

	Three Months Ended			Six Months Ended		
	January 23, 2016	January 24, 2015	Variance in Dollars	January 23, 2016	January 24, 2015	Variance in Dollars
Gains (losses) on investments, net:						
Publicly traded equity securities	\$ 2	\$ 60	\$ (58)	\$ (7)	\$ 56	\$ (63)
Fixed income securities	(21)	9	(30)	(13)	20	(33)
Total available-for-sale investments	(19)	69	(88)	(20)	76	(96)
Privately held companies	(36)	134	(170)	(47)	101	(148)
Net gains (losses) on investments	(55)	203	(258)	(67)	177	(244)
Other gains (losses), net	(8)	(2)	(6)	(4)	2	(6)
Other income (loss), net	\$ (63)	\$ 201	\$ (264)	\$ (71)	\$ 179	\$ (250)

The change in total net gains (losses) on available-for-sale investments in the second quarter and first six months of fiscal 2016 , as compared with the corresponding periods in fiscal 2015 , was primarily attributable to lower realized gains on publicly traded equity securities in the current periods as a result of market conditions and the timing of sales of these securities.

The change in net gains (losses) on investments in privately held companies for the second quarter and first six months of fiscal 2016 , as compared with the corresponding periods in fiscal 2015 , was primarily due to a gain of \$126 million related to the reorganization of our investment in VCE Company, LLC, which was recorded in the second quarter of fiscal 2015, higher impairment charges on certain investments in privately held companies, and lower realized gains from various investments in privately held companies.

The change in other gains (losses), net in the second quarter and first six months of fiscal 2016 , as compared with the corresponding periods in fiscal 2015 , was driven by net unfavorable foreign exchange impacts, higher donation expenses and impacts from equity derivatives.

Provision for Income Taxes

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates, higher than anticipated in countries that have higher tax rates, and expiration of or lapses in tax incentives. Our provision for income taxes does not include provisions for U.S. income taxes and foreign withholding taxes associated with the repatriation of undistributed earnings of certain foreign subsidiaries that we intend to reinvest indefinitely in our foreign subsidiaries. If these earnings were distributed from the foreign subsidiaries to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates. Our failure to meet these commitments could adversely impact our provision for income taxes.

The provision for income taxes resulted in an effective tax rate of 4.8% for the second quarter of fiscal 2016 compared with 16.6% for the second quarter of fiscal 2015 , which resulted in a net 11.8 percentage point decrease in the effective tax rate for the second quarter of fiscal 2016 as compared with the second quarter of fiscal 2015 . The provision for income taxes resulted in an effective tax rate of 13.4% for the first six months of fiscal 2016 , as compared with an effective tax rate of 19.3% for the first six months of fiscal 2015 , which resulted in a net 5.9 percentage point decrease in the effective tax rate for the first six months of fiscal 2016 as compared with the first six months of fiscal 2015 . The decrease in the effective tax rates for both the second quarter and first six months of fiscal 2016 , as compared with the second quarter and first six months of fiscal 2015 , was primarily due to the recognition of a net benefit to the provision for income taxes of approximately \$367 million related to our settlement with the IRS of all outstanding items covering fiscal 2008 through fiscal 2010 and a tax benefit of \$156 million related to permanent reinstatement of the U.S. federal R&D tax credit, of which \$84 million related to fiscal 2015 R&D expenses. See Note 16 to the Consolidated Financial Statements.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES

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

Balance Sheet and Cash Flows

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

	January 23, 2016	July 25, 2015	Increase (Decrease)
Cash and cash equivalents	\$ 6,314	\$ 6,877	\$ (563)
Fixed income securities	52,630	51,974	656
Publicly traded equity securities	1,431	1,565	(134)
Total	\$ 60,375	\$ 60,416	\$ (41)

The slight net decrease in cash and cash equivalents and investments in the first six months of fiscal 2016 was driven by cash returned to shareholders in the form of repurchase of common stock of \$2.3 billion under the stock repurchase program and cash dividends of \$2.1 billion . Other significant uses of cash in the first six months of fiscal 2016 included net cash paid for acquisitions and investments in privately-held companies of \$1.2 billion , repayment of debt of \$0.9 billion , and capital expenditures of \$0.6 billion . Partially offsetting these cash outflows were cash provided by operating activities of \$6.7 billion and proceeds from the sale of our SP Video CPE Business of \$0.4 billion .

Our total in cash and cash equivalents and investments held by various foreign subsidiaries was \$56.5 billion and \$53.4 billion as of January 23, 2016 and July 25, 2015 , respectively. Under current tax laws and regulations, if these assets were to be distributed from the foreign subsidiaries to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The balance of cash and cash equivalents and investments available in the United States as of January 23, 2016 and July 25, 2015 was \$3.9 billion and \$7.0 billion , respectively. In the third quarter of fiscal 2016, we announced that we entered into a definitive agreement to acquire Jasper. This acquisition will reduce our current balance of cash and cash equivalents and investments available in the United States by approximately \$1.4 billion upon completion. See Note 3 to the Consolidated Financial Statements.

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

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

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

	Six Months Ended	
	January 23, 2016	January 24, 2015
Net cash provided by operating activities	\$ 6,688	\$ 5,374
Acquisition of property and equipment	(576)	(550)
Free cash flow	\$ 6,112	\$ 4,824

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

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We consider free cash flow to be a liquidity measure that provides useful information to management and investors because of our intent to return a stated percentage of free cash flow to shareholders in the form of dividends and stock repurchases. We further regard free cash flow as a useful measure because it reflects cash that can be used to, among other things, invest in our business, make strategic acquisitions, repurchase common stock, and pay dividends on our common stock, after deducting capital investments. A limitation of the utility of free cash flow as a measure of financial performance and liquidity is that the free cash flow does not represent the total increase or decrease in our cash balance for the period. In addition, we have other required uses of cash, including repaying the principal of our outstanding indebtedness. Free cash flow is not a measure calculated in accordance with U.S. generally accepted accounting principles and should not be regarded in isolation or as an alternative for net income provided by operating activities or any other measure calculated in accordance with such principles, and other companies may calculate free cash flow in a different manner than we do.

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

	DIVIDENDS			STOCK REPURCHASE PROGRAM				
<u>Quarter Ended</u>	Per Share		Amount	Shares	Weighted-Average Price per Share		Amount	TOTAL
Fiscal 2016								
January 23, 2016	\$	0.21	\$ 1,065	48	\$	26.12	\$ 1,262	\$ 2,327
October 24, 2015	\$	0.21	\$ 1,068	45	\$	26.83	\$ 1,207	\$ 2,275
Fiscal 2015								
July 25, 2015	\$	0.21	\$ 1,069	35	\$	28.62	\$ 1,005	\$ 2,074
April 25, 2015	\$	0.21	\$ 1,070	35	\$	28.39	\$ 1,008	\$ 2,078
January 24, 2015	\$	0.19	\$ 974	44	\$	27.63	\$ 1,208	\$ 2,182
October 25, 2014	\$	0.19	\$ 973	41	\$	24.58	\$ 1,013	\$ 1,986

On February 10, 2016, our Board of Directors declared a quarterly dividend of \$0.26 per common share to be paid on April 27, 2016 to all shareholders of record as of the close of business on April 6, 2016. Any future dividends will be subject to the approval of our Board of Directors.

On February 10, 2016, our Board of Directors authorized a \$15 billion increase to the stock repurchase program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately \$16.9 billion, with no termination date.

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

	January 23, 2016	July 25, 2015	Increase (Decrease)
Accounts receivable, net	\$ 4,302	\$ 5,344	\$ (1,042)
DSO	33	38	(5)

Our accounts receivable net, as of January 23, 2016 decreased by approximately 19% compared with the end of fiscal 2015. Our DSO as of January 23, 2016 was lower by five days as compared with the end of fiscal 2015, primarily due to product and service billings being more linear in the second quarter of fiscal 2016 compared with the fourth quarter of fiscal 2015.

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

	January 23, 2016	July 25, 2015	Increase (Decrease)
Inventories	\$ 1,362	\$ 1,627	\$ (265)
Annualized inventory turns	12.6	12.1	0.5
Purchase commitments with contract manufacturers and suppliers	\$ 3,435	\$ 4,078	\$ (643)

CISCO SYSTEMS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Inventory and purchase commitments with contract manufacturers and suppliers as of January 23, 2016 each decreased by approximately 16% compared with the end of fiscal 2015. The decrease in inventory and purchase commitments with contract manufacturers and suppliers was in part due to the sale of the SP Video CPE Business. We believe our inventory and purchase commitments levels are in line with our current demand forecasts.

Our finished goods consist of distributor inventory and deferred cost of sales and manufactured finished goods. Distributor inventory and deferred cost of sales are related to unrecognized revenue on shipments to distributors and retail partners as well as shipments to customers. Manufactured finished goods consist primarily of build-to-order and build-to-stock products.

We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements and our commitment to securing manufacturing capacity. A significant portion of our reported purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. Our purchase commitments are for short-term product manufacturing requirements as well as for commitments to suppliers to secure manufacturing capacity.

We record a liability, included in other current liabilities, for firm, noncancelable, and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. The purchase commitments for inventory are expected to be primarily fulfilled within one year.

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

Financing Receivables and Guarantees We measure our net balance sheet exposure position related to our financing receivables and financing guarantees by reducing the total of gross financing receivables and financing guarantees by the associated allowances for credit loss and deferred revenue. As of January 23, 2016, our net balance sheet exposure position related to financing receivables and financing guarantees was as follows (in millions):

	FINANCING RECEIVABLES				FINANCING GUARANTEES			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total	Channel Partner	End-User Customers	Total	TOTAL
January 23, 2016								
Financing receivables and guarantees	\$ 3,377	\$ 2,177	\$ 3,405	\$ 8,959	\$ 244	\$ 113	\$ 357	\$ 9,316
Unearned income	(177)	—	—	(177)	—	—	—	(177)
Allowance for credit loss	(248)	(80)	(37)	(365)	—	—	—	(365)
Deferred revenue	(5)	(13)	(1,714)	(1,732)	(100)	(90)	(190)	(1,922)
Net balance sheet exposure	<u>\$ 2,947</u>	<u>\$ 2,084</u>	<u>\$ 1,654</u>	<u>\$ 6,685</u>	<u>\$ 144</u>	<u>\$ 23</u>	<u>\$ 167</u>	<u>\$ 6,852</u>

Financing Receivables Financing receivables less unearned income increased by 1% compared with the end of fiscal 2015. The change was due to a 23% increase in loan receivables partially offset by a 6% decrease in lease receivables and a 5% decrease in financed service contracts and other. We provide financing to certain end-user customers and channel partners to enable sales of our products, services, and networking solutions. These financing arrangements include leases, financed service contracts, and loans. Arrangements related to leases are generally collateralized by a security interest in the underlying assets. Lease receivables include sales-type and direct-financing leases. We also provide certain qualified customers financing for long-term service contracts, which primarily relate to technical support services. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services. We expect to continue to expand the use of our financing programs in the near term.

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

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The volume of channel partner financing was \$6.5 billion and \$6.2 billion for the three months ended January 23, 2016 and January 24, 2015, respectively. These financing arrangements facilitate the working capital requirements of the channel partners, and in some cases, we guarantee a portion of these arrangements. The balance of the channel partner financing subject to guarantees was \$1.2 billion as of each of January 23, 2016 and July 25, 2015, respectively. We could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. Historically, our payments under these arrangements have been immaterial. Where we provide a guarantee, we defer the revenue associated with the channel partner and end-user financing arrangement in accordance with revenue recognition policies, or we record a liability for the fair value of the guarantees. In either case, the deferred revenue is recognized as revenue when the guarantee is removed.

Deferred Revenue Related to Financing Receivables and Guarantees The majority of the deferred revenue in the preceding table is related to financed service contracts. The majority of the revenue related to financed service contracts, which primarily relates to technical support services, is deferred as the revenue related to financed service contracts is recognized ratably over the period during which the related services are to be performed. A portion of the revenue related to lease and loan receivables is also deferred and included in deferred product revenue based on revenue recognition criteria not currently having been met.

Borrowings

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

	Maturity Date	January 23, 2016	July 25, 2015
Senior notes:			
Floating-rate notes:			
Three-month LIBOR plus 0.05%	September 3, 2015	\$ —	\$ 850
Three-month LIBOR plus 0.28%	March 3, 2017	1,000	1,000
Three-month LIBOR plus 0.31%	June 15, 2018	900	900
Three-month LIBOR plus 0.50%	March 1, 2019	500	500
Fixed-rate notes:			
5.50%	February 22, 2016	3,000	3,000
1.10%	March 3, 2017	2,400	2,400
3.15%	March 14, 2017	750	750
1.65%	June 15, 2018	1,600	1,600
4.95%	February 15, 2019	2,000	2,000
2.125%	March 1, 2019	1,750	1,750
4.45%	January 15, 2020	2,500	2,500
2.45%	June 15, 2020	1,500	1,500
2.90%	March 4, 2021	500	500
3.00%	June 15, 2022	500	500
3.625%	March 4, 2024	1,000	1,000
3.50%	June 15, 2025	500	500
5.90%	February 15, 2039	2,000	2,000
5.50%	January 15, 2040	2,000	2,000
Total		<u>\$ 24,400</u>	<u>\$ 25,250</u>

Interest is payable semiannually on each class of the senior fixed-rate notes, each of which is redeemable by us at any time, subject to a make-whole premium. Interest is payable quarterly on the floating-rate notes. We were in compliance with all debt covenants as of January 23, 2016.

We repaid the floating-rate notes due on September 3, 2015 for an aggregate principal amount of \$850 million upon maturity.

Other Debt Other debt as of January 23, 2016 and July 25, 2015 includes secured borrowings associated with customer financing arrangements. The amount of borrowings outstanding under these arrangements was \$2 million and \$4 million as of January 23, 2016 and July 25, 2015, respectively.

CISCO SYSTEMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Commercial Paper In fiscal 2011, we established a short-term debt financing program of up to \$3.0 billion through the issuance of commercial paper notes. We use the proceeds from the issuance of commercial paper notes for general corporate purposes. We had no commercial paper notes outstanding as of each of January 23, 2016 and July 25, 2015.

Credit Facility On May 15, 2015, we entered into a credit agreement with certain institutional lenders that provides for a \$3.0 billion unsecured revolving credit facility that is scheduled to expire on May 15, 2020. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (i) the highest of (a) the Federal Funds rate plus 0.50%, (b) Bank of America's "prime rate" as announced from time to time, or (c) LIBOR, or a comparable or successor rate that is approved by the Administrative Agent ("Eurocurrency Rate"), for an interest period of one month plus 1.00%, or (ii) the Eurocurrency Rate, plus a margin that is based on our senior debt credit ratings as published by Standard & Poor's Financial Services, LLC and Moody's Investors Service, Inc., provided that in no event will the Eurocurrency Rate be less than zero. The credit agreement requires that we comply with certain covenants, including that it maintains an interest coverage ratio as defined in the agreement.

We may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$2.0 billion and/or extend the expiration date of the credit facility up to May 15, 2022. We were in compliance with the required interest coverage ratio and the other covenants, and we had not borrowed any funds under the credit facility.

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

	January 23, 2016	July 25, 2015	Increase (Decrease)
Service	\$ 9,657	\$ 9,757	\$ (100)
Product	5,528	5,426	102
Total	<u>\$ 15,185</u>	<u>\$ 15,183</u>	<u>\$ 2</u>
Reported as:			
Current	\$ 9,796	\$ 9,824	\$ (28)
Noncurrent	5,389	5,359	30
Total	<u>\$ 15,185</u>	<u>\$ 15,183</u>	<u>\$ 2</u>

The 1% decrease in deferred service revenue was driven by the timing of multiyear arrangements, the impact of ongoing amortization of deferred service revenue, and currency impacts. The 2% increase in deferred product revenue was primarily due to increased deferrals related to subscription revenue arrangements and also was due, to a lesser extent, to an increase in shipments not having met revenue recognition criteria as of January 23, 2016, partially offset by lower deferred revenue related to two-tier distributors.

Contractual Obligations

Operating Leases

We lease office space in many U.S. locations. Outside the United States, larger leased sites include sites in Belgium, Canada, China, France, Germany, India, Israel, Japan, Poland and the United Kingdom. We also lease equipment and vehicles. The future minimum lease payments under all of our noncancelable operating leases with an initial term in excess of one year as of January 23, 2016 were \$1.1 billion.

Other Commitments

In connection with our acquisitions and asset purchases, we have agreed to pay certain additional amounts contingent upon the achievement of certain agreed-upon technology, development, product, or other milestones or the continued employment with us of certain employees of the acquired entities. See Note 12 to the Consolidated Financial Statements.

Insieme Networks, Inc. In the third quarter of fiscal 2012, we made an investment in Insieme, an early stage company focused on research and development in the data center market. As set forth in the agreement between Cisco and Insieme, this investment included \$100 million of funding and a license to certain of our technology. Immediately prior to the call option exercise and acquisition described below, we owned approximately 83% of Insieme as a result of these investments and have consolidated the results of Insieme in our Consolidated Financial Statements. In connection with this investment, we entered into a put/call option agreement that provided us with the right to purchase the remaining interests in Insieme. In addition, the noncontrolling interest holders could require us to purchase their shares upon the occurrence of certain events.

During the first quarter of fiscal 2014, we exercised our call option and entered into an agreement to purchase the remaining interests in Insieme. The acquisition closed in the second quarter of fiscal 2014, at which time the former noncontrolling interest holders became eligible to receive up to two milestone payments, which will be determined using agreed-upon formulas based primarily on revenue for certain of Insieme's products. During the six months ended January 23, 2016 and January 24, 2015, we recorded compensation expense of \$101 million and \$104 million, respectively, related to the fair value of the vested portion of amounts that were earned or are expected to be earned by the former noncontrolling interest holders. Continued vesting and changes to the fair value of the amounts probable of being earned will result in adjustments to the recorded compensation expense in future periods. Based on the terms of the agreement, we have determined that the maximum amount that could be recorded as compensation expense by us is approximately \$839 million (which includes the \$724 million that has been expensed to date), net of forfeitures.

The former noncontrolling interest holders earned the maximum amount related to the first milestone payment and were paid approximately \$354 million for a portion of this amount during the first six months of fiscal 2016. The balance of the first milestone payment is expected to be paid primarily through the end of fiscal 2016. The second milestone payment, to the extent earned, is expected to be paid primarily during the first half of fiscal 2017.

Other Funding Commitments We also have certain funding commitments primarily related to our investments in privately held companies and venture funds, some of which are based on the achievement of certain agreed-upon milestones, and some of which are required to be funded on demand. The funding commitments were \$188 million as of January 23, 2016, compared with \$205 million as of July 25, 2015.

Off-Balance Sheet Arrangements

We consider our investments in unconsolidated variable interest entities to be off-balance sheet arrangements. In the ordinary course of business, we have investments in privately held companies and provide financing to certain customers. These privately held companies and customers may be considered to be variable interest entities. We evaluate on an ongoing basis our investments in these privately held companies and customer financings, and we have determined that as of January 23, 2016 there were no material unconsolidated variable interest entities.

On an ongoing basis, we reassess our investments in privately held companies and customer financings to determine if they are variable interest entities and if we would be regarded as the primary beneficiary pursuant to the applicable accounting guidance. As a result of this ongoing assessment, we may be required to make additional disclosures or consolidate these entities. Because we may not control these entities, we may not have the ability to influence these events.

We provide financing guarantees, which are generally for various third-party financing arrangements extended to our channel partners and end-user customers. We could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. See the previous discussion of these financing guarantees under "Financing Receivables and Guarantees."

Securities Lending

We periodically engage in securities lending activities with certain of our available for sale investments. These transactions are accounted for as a secured lending of the securities, and the securities are typically loaned only on an overnight basis. The average daily balance of securities lending for each of the six months ended January 23, 2016 and January 24, 2015 was \$0.6 billion. We require collateral equal to at least 102% of the fair market value of the loaned security and that the collateral be in the form of cash or liquid, high-quality assets. We engage in these secured lending transactions only with highly creditworthy counterparties, and the associated portfolio custodian has agreed to indemnify us against collateral losses. As of January 23, 2016 and July 25, 2015, we had no outstanding securities lending transactions. We believe these arrangements do not present a material risk or impact to our liquidity requirements.

Liquidity and Capital Resource Requirements

Based on past performance and current expectations, we believe our cash and cash equivalents, investments, cash generated from operations, and ability to access capital markets and committed credit lines will satisfy, through at least the next 12 months, our liquidity requirements, both in total and domestically, including the following: working capital needs, capital expenditures, investment requirements, stock repurchases, cash dividends, contractual obligations, commitments, pending acquisitions, principal and interest payments on debt, future customer financings, and other liquidity requirements associated with our operations. There are no other transactions, arrangements, or relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the liquidity and the availability of, as well as our requirements for, capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial position is exposed to a variety of risks, including interest rate risk, equity price risk, and foreign currency exchange risk.

Interest Rate Risk

Fixed Income Securities We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. We may utilize derivative instruments designated as hedging instruments to achieve our investment objectives. We had no outstanding hedging instruments for our fixed income securities as of January 23, 2016. Our fixed income investments are held for purposes other than trading. Our fixed income investments are not leveraged as of January 23, 2016. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. As of January 23, 2016, approximately 60% of our fixed income securities balance consisted of U.S. government and U.S. government agency securities. We believe the overall credit quality of our portfolio is strong.

Financing Receivables As of January 23, 2016, our financing receivables had a carrying value of \$8.4 billion, compared with \$8.3 billion as of July 25, 2015. As of January 23, 2016, a hypothetical 50 basis points (“BPS”) increase or decrease in market interest rates would change the fair value of our financing receivables by a decrease or increase of approximately \$0.1 billion, respectively.

Debt As of January 23, 2016, we had \$24.4 billion in principal amount of senior notes outstanding, which consisted of \$2.4 billion floating-rate notes and \$22.0 billion fixed-rate notes. The carrying amount of the senior notes was \$24.6 billion, and the related fair value based on market prices was \$25.8 billion. As of January 23, 2016, a hypothetical 50 BPS increase or decrease in market interest rates would change the fair value of the fixed-rate debt, excluding the \$11.4 billion of hedged debt, by a decrease or increase of approximately \$0.4 billion, respectively. However, this hypothetical change in interest rates would not impact the interest expense on the fixed-rate debt that is not hedged.

Equity Price Risk

The fair value of our equity investments in publicly traded companies is subject to market price volatility. We may hold equity securities for strategic purposes or to diversify our overall investment portfolio. Our equity portfolio consists of securities with characteristics that most closely match the Standard & Poor’s 500 Index or NASDAQ Composite Index. These equity securities are held for purposes other than trading. To manage our exposure to changes in the fair value of certain equity securities, we may enter into equity derivatives designated as hedging instruments.

Publicly Traded Equity Securities The following tables present the hypothetical fair values of publicly traded equity securities as a result of selected potential decreases and increases in the price of each equity security in the portfolio, excluding hedged equity securities, if any. Potential fluctuations in the price of each equity security in the portfolio of plus or minus 10%, 20%, and 30% were selected based on potential near-term changes in those security prices. The hypothetical fair values as of January 23, 2016 and July 25, 2015 are as follows (in millions):

	VALUATION OF SECURITIES GIVEN AN X% DECREASE IN EACH STOCK’S PRICE			FAIR VALUE AS OF JANUARY 23, 2016	VALUATION OF SECURITIES GIVEN AN X% INCREASE IN EACH STOCK’S PRICE		
	(30)%	(20)%	(10)%		10%	20%	30%
Publicly traded equity securities	\$ 1,002	\$ 1,145	\$ 1,288	\$ 1,431	\$ 1,574	\$ 1,717	\$ 1,860

	VALUATION OF SECURITIES GIVEN AN X% DECREASE IN EACH STOCK’S PRICE			FAIR VALUE AS OF JULY 25, 2015	VALUATION OF SECURITIES GIVEN AN X% INCREASE IN EACH STOCK’S PRICE		
	(30)%	(20)%	(10)%		10%	20%	30%
Publicly traded equity securities	\$ 1,096	\$ 1,252	\$ 1,409	\$ 1,565	\$ 1,722	\$ 1,878	\$ 2,035

Investments in Privately Held Companies We have also invested in privately held companies. These investments are recorded in other assets in our Consolidated Balance Sheets and are accounted for using primarily either the cost or the equity method. As of January 23, 2016, the total carrying amount of our investments in privately held companies was \$964 million, compared with \$897 million at July 25, 2015. Some of the privately held companies in which we invested are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We could lose our entire investment in these companies. Our evaluation of investments in privately held companies is based on the fundamentals of the businesses invested in, including, among other factors, the nature of their technologies and potential for financial return.

Foreign Currency Exchange Risk

Our foreign exchange forward and option contracts outstanding as of respective period-ends are summarized in U.S. dollar equivalents as follows (in millions):

	January 23, 2016		July 25, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Forward contracts:				
Purchased	\$ 2,329	\$ (15)	\$ 1,988	\$ (5)
Sold	\$ 614	\$ 4	\$ 614	\$ 2
Option contracts:				
Purchased	\$ 259	\$ 1	\$ 422	\$ 6
Sold	\$ 234	\$ (4)	\$ 392	\$ (3)

We conduct business globally in numerous currencies. The direct effect of foreign currency fluctuations on revenue has not been material because our revenue is primarily denominated in U.S. dollars. However, if the U.S. dollar strengthens relative to other currencies, as was the case during the first six months of fiscal 2016, such strengthening could have an indirect effect on our revenue to the extent it raises the cost of our products to non-U.S. customers and thereby reduces demand. A weaker U.S. dollar could have the opposite effect. However, the precise indirect effect of currency fluctuations is difficult to measure or predict because our revenue is influenced by many factors in addition to the impact of such currency fluctuations.

Approximately 70% of our operating expenses are U.S.-dollar denominated. In the first six months of fiscal 2016, foreign currency fluctuations, net of hedging, decreased our combined R&D, sales and marketing, and G&A expenses by approximately \$356 million, or approximately 4.0%, compared with the first six months of fiscal 2015. To reduce variability in operating expenses and service cost of sales caused by non-U.S.-dollar denominated operating expenses and costs, we hedge certain forecasted foreign currency transactions with currency options and forward contracts. These hedging programs are not designed to provide foreign currency protection over long time horizons. In designing a specific hedging approach, we consider several factors, including offsetting exposures, significance of exposures, costs associated with entering into a particular hedge instrument, and potential effectiveness of the hedge. The gains and losses on foreign exchange contracts mitigate the effect of currency movements on our operating expenses and service cost of sales.

We also enter into foreign exchange forward and option contracts to reduce the short-term effects of foreign currency fluctuations on receivables and payables that are denominated in currencies other than the functional currencies of the entities. The market risks associated with these foreign currency receivables, investments, and payables relate primarily to variances from our forecasted foreign currency transactions and balances. Our forward and option contracts generally have the following maturities:

	Maturities
Forward and option contracts—forecasted transactions related to operating expenses and service cost of sales	Up to 18 months
Forward contracts—current assets and liabilities	Up to 3 months
Forward contracts—net investments in foreign subsidiaries	Up to 6 months
Forward contracts—long-term customer financings	Up to 2 years

We do not enter into foreign exchange forward or option contracts for trading purposes.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our second quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Brazil Brazilian authorities have investigated our Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In addition to claims asserted by the Brazilian federal tax authorities in prior fiscal years, tax authorities from the Brazilian state of Sao Paulo have asserted similar claims on the same legal basis in prior fiscal years. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against our Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor.

The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008, and the asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to \$209 million for the alleged evasion of import and other taxes, \$942 million for interest, and \$929 million for various penalties, all determined using an exchange rate as of January 23, 2016. We have completed a thorough review of the matters and believe the asserted claims against our Brazilian subsidiary are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against our Brazilian subsidiary and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years.

Russia and the Commonwealth of Independent States At the request of the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice, we are conducting an investigation into allegations which we and those agencies received regarding possible violations of the U.S. Foreign Corrupt Practices Act involving business activities of Cisco's operations in Russia and certain of the Commonwealth of Independent States, and by certain resellers of our products in those countries. We take any such allegations very seriously and are fully cooperating with and sharing the results of our investigation with the SEC and the Department of Justice. While the outcome of our investigation is currently not determinable, we do not expect that it will have a material adverse effect on our consolidated financial position, results of operations, or cash flows. The countries that are the subject of the investigation collectively comprise less than 2% of our revenues.

In addition, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows. For additional information regarding intellectual property litigation, see "Part II, Item 1A. Risk Factors-We may be found to infringe on intellectual property rights of others" herein.

Item 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in “Part I, Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended July 25, 2015.

OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, WHICH MAY ADVERSELY AFFECT OUR STOCK PRICE

Our operating results have been in the past, and will continue to be, subject to quarterly and annual fluctuations as a result of numerous factors, some of which may contribute to more pronounced fluctuations in an uncertain global economic environment. These factors include:

- Fluctuations in demand for our products and services, especially with respect to telecommunications service providers and Internet businesses, in part due to changes in the global economic environment
- Changes in sales and implementation cycles for our products and reduced visibility into our customers’ spending plans and associated revenue
- Our ability to maintain appropriate inventory levels and purchase commitments
- Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation and different business models from various geographic regions
- The overall movement toward industry consolidation among both our competitors and our customers
- The introduction and market acceptance of new technologies and products and our success in new and evolving markets, including in our newer product categories such as data center and collaboration and in emerging technologies, as well as the adoption of new standards
- New business models for our offerings, such as XaaS, where costs are borne up front while revenue is recognized over time
- Variations in sales channels, product costs, or mix of products sold
- The timing, size, and mix of orders from customers
- Manufacturing and customer lead times
- Fluctuations in our gross margins, and the factors that contribute to such fluctuations, as described below
- The ability of our customers, channel partners, contract manufacturers and suppliers to obtain financing or to fund capital expenditures, especially during a period of global credit market disruption or in the event of customer, channel partner, contract manufacturer or supplier financial problems
- Share-based compensation expense
- Actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the values of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our Consolidated Financial Statements
- How well we execute on our strategy and operating plans and the impact of changes in our business model that could result in significant restructuring charges
- Our ability to achieve targeted cost reductions
- Benefits anticipated from our investments in engineering, sales, service, and marketing
- Changes in tax laws or accounting rules, or interpretations thereof

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

OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED BY UNFAVORABLE ECONOMIC AND MARKET CONDITIONS AND THE UNCERTAIN GEOPOLITICAL ENVIRONMENT

Challenging economic conditions worldwide have from time to time contributed, and may continue to contribute, to slowdowns in the communications and networking industries at large, as well as in specific segments and markets in which we operate, resulting in:

- Reduced demand for our products as a result of continued constraints on IT-related capital spending by our customers, particularly service providers, and other customer markets as well
- Increased price competition for our products, not only from our competitors but also as a consequence of customers disposing of unutilized products
- Risk of excess and obsolete inventories
- Risk of supply constraints
- Risk of excess facilities and manufacturing capacity
- Higher overhead costs as a percentage of revenue and higher interest expense

The global macroeconomic environment has been challenging and inconsistent. Instability in the global credit markets, the impact of uncertainty regarding global central bank monetary policy, the instability in the geopolitical environment in many parts of the world, the current economic challenges in China, including global economic ramifications of Chinese economic difficulties, and other disruptions may continue to put pressure on global economic conditions. If global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

Our operating results in one or more segments may also be affected by uncertain or changing economic conditions particularly germane to that segment or to particular customer markets within that segment. For example, sales in several of our emerging countries decreased in recent periods, including in fiscal 2014 and fiscal 2015, and although we did see improvement in sales in several of our emerging countries in the first half of fiscal 2016, we continue to assess the sustainability of improvements in these countries.

In addition, reports of certain intelligence gathering methods of the U.S. government could affect customers' perception of the products of IT companies which design and manufacture products in the United States. Trust and confidence in us as an IT supplier is critical to the development and growth of our markets. Impairment of that trust, or foreign regulatory actions taken in response to reports of certain intelligence gathering methods of the U.S. government, could affect the demand for our products from customers outside of the United States and could have an adverse effect on our operating results.

WE HAVE BEEN INVESTING AND EXPECT TO CONTINUE TO INVEST IN KEY GROWTH AREAS AS WELL AS MAINTAINING LEADERSHIP IN ROUTING, SWITCHING AND SERVICES, AND IF THE RETURN ON THESE INVESTMENTS IS LOWER OR DEVELOPS MORE SLOWLY THAN WE EXPECT, OUR OPERATING RESULTS MAY BE HARMED

We expect to realign and dedicate resources into key growth areas, such as data center virtualization, software, security, and cloud, while also focusing on maintaining leadership in routing, switching and services. However, the return on our investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments (including if our selection of areas for investment does not play out as we expect), or if the achievement of these benefits is delayed, our operating results may be adversely affected.

OUR REVENUE FOR A PARTICULAR PERIOD IS DIFFICULT TO PREDICT, AND A SHORTFALL IN REVENUE MAY HARM OUR OPERATING RESULTS

As a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict, especially in light of a challenging and inconsistent global macroeconomic environment and related market uncertainty.

Our revenue may grow at a slower rate than in past periods, or decline as it did in fiscal 2014 on a year-over-year basis. Our ability to meet financial expectations could also be adversely affected if the nonlinear sales pattern seen in some of our past quarters recurs in future periods. We have experienced periods of time during which shipments have exceeded net bookings or manufacturing issues have delayed shipments, leading to nonlinearity in shipping patterns. In addition to making it difficult to predict revenue for a particular period, nonlinearity in shipping can increase costs, because irregular shipment patterns result in periods of underutilized capacity and periods in which overtime expenses may be incurred, as well as in potential additional inventory management-related costs. In addition, to the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods in which our contract manufacturers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters occur and are not remediated within the same quarter.

The timing of large orders can also have a significant effect on our business and operating results from quarter to quarter, primarily in the United States and in emerging countries. From time to time, we receive large orders that have a significant effect on our operating results in the period in which the order is recognized as revenue. The timing of such orders is difficult to predict, and the timing of revenue recognition from such orders may affect period to period changes in revenue. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue.

Inventory management remains an area of focus. We have experienced longer than normal manufacturing lead times in the past which have caused some customers to place the same order multiple times within our various sales channels and to cancel the duplicative orders upon receipt of the product, or to place orders with other vendors with shorter manufacturing lead times. Such multiple ordering (along with other factors) or risk of order cancellation may cause difficulty in predicting our revenue and, as a result, could impair our ability to manage parts inventory effectively. In addition, our efforts to improve manufacturing lead-time performance may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter revenue and operating results. In addition, when facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations which in turn contribute to an increase in purchase commitments. Increases in our purchase commitments to shorten lead times could also lead to excess and obsolete inventory charges if the demand for our products is less than our expectations.

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

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

WE EXPECT GROSS MARGIN TO VARY OVER TIME, AND OUR LEVEL OF PRODUCT GROSS MARGIN MAY NOT BE SUSTAINABLE

Although our product gross margin increased in the second half of fiscal 2015 and in the first half of fiscal 2016, our level of product gross margins have declined in certain prior periods and could decline in future quarters due to adverse impacts from various factors, including:

- Changes in customer, geographic, or product mix, including mix of configurations within each product group
- Introduction of new products, including products with price-performance advantages, and new business models for our offerings such as XaaS
- Our ability to reduce production costs
- Entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development
- Sales discounts
- Increases in material, labor or other manufacturing-related costs, which could be significant especially during periods of supply constraints
- Excess inventory and inventory holding charges
- Obsolescence charges
- Changes in shipment volume

- The timing of revenue recognition and revenue deferrals
- Increased cost, loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates
- Lower than expected benefits from value engineering
- Increased price competition, including competitors from Asia, especially from China
- Changes in distribution channels
- Increased warranty costs
- Increased amortization of purchased intangible assets, especially from acquisitions
- How well we execute on our strategy and operating plans

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

SALES TO THE SERVICE PROVIDER MARKET ARE ESPECIALLY VOLATILE, AND WEAKNESS IN SALES ORDERS FROM THIS INDUSTRY MAY HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION

Sales to the service provider market have been characterized by large and sporadic purchases, especially relating to our router sales and sales of certain products in our newer product categories such as Data Center, Collaboration, and Service Provider Video, in addition to longer sales cycles. Although sales to the service provider market were flat in the second quarter of fiscal 2016, these sales decreased in the first quarter of fiscal 2016 and at various times in the past including in fiscal 2014 and fiscal 2015, we experienced significant weakness in sales to service providers. We could again experience declines in sales to the service provider market and, as has been the case in the past, such sales weakness could persist over extended periods of time given fluctuating market conditions. Sales activity in this industry depends upon the stage of completion of expanding network infrastructures; the availability of funding; and the extent to which service providers are affected by regulatory, economic, and business conditions in the country of operations. Weakness in orders from this industry, including as a result of any slowdown in capital expenditures by service providers (which may be more prevalent during a global economic downturn or periods of economic uncertainty), could have a material adverse effect on our business, operating results, and financial condition. Such slowdowns may continue or recur in future periods. Orders from this industry could decline for many reasons other than the competitiveness of our products and services within their respective markets. For example, in the past, many of our service provider customers have been materially and adversely affected by slowdowns in the general economy, by overcapacity, by changes in the service provider market, by regulatory developments, and by constraints on capital availability, resulting in business failures and substantial reductions in spending and expansion plans. These conditions have materially harmed our business and operating results in the past, and some of these or other conditions in the service provider market could affect our business and operating results in any future period. Finally, service provider customers typically have longer implementation cycles; require a broader range of services, including design services; demand that vendors take on a larger share of risks; often require acceptance provisions, which can lead to a delay in revenue recognition; and expect financing from vendors. All these factors can add further risk to business conducted with service providers.

DISRUPTION OF OR CHANGES IN OUR DISTRIBUTION MODEL COULD HARM OUR SALES AND MARGINS

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

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

increase, this may lead to greater difficulty in forecasting the mix of our products and, to a degree, the timing of orders from our customers.

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

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

- We compete with some of our channel partners, including through our direct sales, which may lead these channel partners to use other suppliers that do not directly sell their own products or otherwise compete with them
- Some of our channel partners may demand that we absorb a greater share of the risks that their customers may ask them to bear
- Some of our channel partners may have insufficient financial resources and may not be able to withstand changes and challenges in business conditions
- Revenue from indirect sales could suffer if our distributors' financial condition or operations weaken

In addition, we depend on our channel partners globally to comply with applicable regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition. Further, sales of our products outside of agreed territories can result in disruption to our distribution channels.

THE MARKETS IN WHICH WE COMPETE ARE INTENSELY COMPETITIVE, WHICH COULD ADVERSELY AFFECT OUR ACHIEVEMENT OF REVENUE GROWTH

The markets in which we compete are characterized by rapid change, converging technologies, and a migration to networking and communications solutions that offer relative advantages. These market factors represent a competitive threat to us. We compete with numerous vendors in each product category. The overall number of our competitors providing niche product solutions may increase. Also, the identity and composition of competitors may change as we increase our activity in newer product categories such as data center and collaboration and in key growth areas. For example, as products related to network programmability, such as software-defined-networking products, become more prevalent, we expect to face increased competition from companies that develop networking products based on commoditized hardware, referred to as "white box" hardware, to the extent customers decide to purchase those product offerings instead of ours. In addition, the growth in demand for technology delivered as a service enables new competitors to enter the market.

As we continue to expand globally, we may see new competition in different geographic regions. In particular, we have experienced price-focused competition from competitors in Asia, especially from China, and we anticipate this will continue. Our competitors include Amazon Web Services LLC; Arista Networks, Inc.; ARRIS Group, Inc.; Avaya Inc.; Blue Jeans Networks, Brocade Communications Systems, Inc.; Check Point Software Technologies Ltd.; Citrix Systems, Inc.; Dell Inc.; LM Ericsson Telephone Company; Extreme Networks, Inc.; F5 Networks, Inc.; FireEye, Inc.; Fortinet, Inc.; Hewlett-Packard Enterprise Company; Huawei Technologies Co., Ltd.; International Business Machines Corporation; Juniper Networks, Inc.; Lenovo Group Limited; Microsoft Corporation; Nokia Corporation; Palo Alto Networks, Inc.; Polycom, Inc.; Riverbed Technology, Inc.; Ruckus Wireless, Inc.; Symantec Corporation; Ubiquiti Networks and VMware, Inc.; among others.

Some of these companies compete across many of our product lines, while others are primarily focused in a specific product area. Barriers to entry are relatively low, and new ventures to create products that do or could compete with our products are regularly formed. In addition, some of our competitors may have greater resources, including technical and engineering resources, than we do. As we expand into new markets, we will face competition not only from our existing competitors but also from other competitors, including existing companies with strong technological, marketing, and sales positions in those markets. We also sometimes face competition from resellers and distributors of our products. Companies with which we have strategic alliances in some areas may be competitors in other areas, and in our view this trend may increase.

For example, the enterprise data center is undergoing a fundamental transformation arising from the convergence of technologies, including computing, networking, storage, and software, that previously were segregated. Due to several factors, including the availability of highly scalable and general purpose microprocessors, application-specific integrated circuits (ASICs) offering advanced services, standards based protocols, cloud computing and virtualization, the convergence of technologies within the enterprise data center is spanning multiple, previously independent, technology segments. Also, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them to provide end-to-end technology solutions for the enterprise data center. As a result of all of these developments, we face

greater competition in the development and sale of enterprise data center technologies, including competition from entities that are among our long-term strategic alliance partners. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us.

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

- The ability to provide a broad range of networking 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

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

OUR INVENTORY MANAGEMENT RELATING TO OUR SALES TO OUR TWO-TIER DISTRIBUTION CHANNEL IS COMPLEX, AND EXCESS INVENTORY MAY HARM OUR GROSS MARGINS

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

SUPPLY CHAIN ISSUES, INCLUDING FINANCIAL PROBLEMS OF CONTRACT MANUFACTURERS OR COMPONENT SUPPLIERS, OR A SHORTAGE OF ADEQUATE COMPONENT SUPPLY OR MANUFACTURING CAPACITY THAT INCREASED OUR COSTS OR CAUSED A DELAY IN OUR ABILITY TO FULFILL ORDERS, COULD HAVE AN ADVERSE IMPACT ON OUR BUSINESS AND OPERATING RESULTS, AND OUR FAILURE TO ESTIMATE CUSTOMER DEMAND PROPERLY MAY RESULT IN EXCESS OR OBSOLETE COMPONENT SUPPLY, WHICH COULD ADVERSELY AFFECT OUR GROSS MARGINS

The fact that we do not own or operate the bulk of our manufacturing facilities and that we are reliant on our extended supply chain could have an adverse impact on the supply of our products and on our business and operating results:

- Any financial problems of either contract manufacturers or component suppliers could either limit supply or increase costs
- Reservation of manufacturing capacity at our contract manufacturers by other companies, inside or outside of our industry, could either limit supply or increase costs
- Industry consolidation occurring within one or more component supplier markets, such as the semiconductor market, could either limit supply or increase costs

A reduction or interruption in supply; a significant increase in the price of one or more components; a failure to adequately authorize procurement of inventory by our contract manufacturers; a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs; or a decrease in demand for our products could materially adversely affect our business, operating results, and financial condition and could materially damage customer relationships. Furthermore, as a result of binding price or purchase commitments with suppliers, we may be obligated to purchase components at prices that are higher than those available in the current market. In the event that we become committed to purchase components at prices in excess of the current market price when the components are actually used, our gross margins could decrease. We have experienced longer than normal lead times in the past. Although we have generally secured additional supply or taken other mitigation actions when significant disruptions have occurred, if similar situations occur in the future, they could have a material adverse effect on our business, results of operations, and financial condition. See the risk factor above entitled “Our revenue for a particular period is difficult to predict, and a shortfall in revenue may harm our operating results.”

Our growth and ability to meet customer demands depend in part on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. We have experienced component shortages in the past, including shortages caused by manufacturing process issues, that have affected our operations. We may in the future experience a shortage of certain component parts as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers including capacity or cost problems resulting from industry consolidation, or strong demand in the industry for those parts. Growth in the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and component demands within specific product categories and to establish optimal component levels and manufacturing capacity, especially for labor-intensive components, components for which we purchase a substantial portion of the supply, or the re-ramping of manufacturing capacity for highly complex products. During periods of shortages or delays the price of components may increase, or the components may not be available at all, and we may also encounter shortages if we do not accurately anticipate our needs. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner in the quantities or configurations needed. Accordingly, our revenue and gross margins could suffer until other sources can be developed. Our operating results would also be adversely affected if, anticipating greater demand than actually develops, we commit to the purchase of more components than we need, which is more likely to occur in a period of demand uncertainties such as we are currently experiencing. There can be no assurance that we will not encounter these problems in the future. Although in many cases we use standard parts and components for our products, certain components are presently available only from a single source or limited sources, and a global economic downturn and related market uncertainty could negatively impact the availability of components from one or more of these sources, especially during times such as we have recently seen when there are supplier constraints based on labor and other actions taken during economic downturns. We may not be able to diversify sources in a timely manner, which could harm our ability to deliver products to customers and seriously impact present and future sales.

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

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

Manufacturing capacity and component supply constraints could continue to be significant issues for us. We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to improve manufacturing lead-time performance and to help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. When facing component supply-related challenges, we have increased our efforts in procuring components in order to meet customer expectations which in turn contributes to an increase in purchase commitments. Increases in our purchase commitments to shorten lead times could also lead to excess and obsolete inventory charges if the demand for our products is less than our expectations. If we fail to anticipate customer demand properly, an oversupply of parts could result in excess or obsolete components that could adversely affect our gross margins. For additional information regarding our purchase commitments with contract manufacturers and suppliers, see Note 12 to the Consolidated Financial Statements.

WE DEPEND UPON THE DEVELOPMENT OF NEW PRODUCTS AND ENHANCEMENTS TO EXISTING PRODUCTS, AND IF WE FAIL TO PREDICT AND RESPOND TO EMERGING TECHNOLOGICAL TRENDS AND CUSTOMERS' CHANGING NEEDS, OUR OPERATING RESULTS AND MARKET SHARE MAY SUFFER

The markets for our products are characterized by rapidly changing technology, evolving industry standards, new product introductions, and evolving methods of building and operating networks. Our operating results depend on our ability to develop and introduce new products into existing and emerging markets and to reduce the production costs of existing products. Many of our strategic initiatives and investments we have made, and our architectural approach, are designed to enable the increased use of the network as the platform for automating, orchestrating, integrating, and delivering an ever-increasing array of IT-based products and services. For example, several years ago we launched our Cisco Unified Computing System (UCS), our next-generation enterprise data center platform architected to unite computing, network, storage access and virtualization resources in a single system, which is designed to address the fundamental transformation occurring in the enterprise data center. While our Cisco UCS offering remains a significant focus area for us, several market transitions are also shaping our strategies and investments.

One such market transition we are focusing on is the move towards more programmable, flexible and virtual networks. In our view, this evolution is in its very early stages, and we believe the successful products and solutions in this market will combine application-specific integrated circuits (ASICs), hardware and software elements together. Other examples include our focus on the market transition to the Internet of Everything (IoE), a potentially significant transition in the IT industry, and a transition in cloud where we are architecting the Cisco Intercloud solution.

The process of developing new technology, including technology related to more programmable, flexible and virtual networks and technology related to other market transitions, including IoE and cloud, is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We must commit significant resources, including the investments we have been making in our priorities to developing new products before knowing whether our investments will result in products the market will accept. In particular, if our model of the evolution of networking does not emerge as we believe it will, or if the industry does not evolve as we believe it will, or if our strategy for addressing this evolution is not successful, many of our strategic initiatives and investments may be of no or limited value. For example, if we do not introduce products related to network programmability, such as software-defined-networking products, in a timely fashion, or if product offerings in this market that ultimately succeed are based on technology, or an approach to technology, that differs from ours, such as, for example, networking products based on "white box" hardware, our business could be harmed. Similarly, our business could be harmed if we fail to develop, or fail to develop in a timely fashion, offerings to address other transitions, or if the offerings addressing these other transitions that ultimately succeed are based on technology, or an approach to technology, different from ours.

Our strategy is to lead our customers in their digital transition with solutions including pervasive, industry-leading security that intelligently connect nearly everything that can be connected. Over the last few years, we have been transforming our business to move from selling individual products and services to selling products and services integrated into architectures and solutions. As a part of this transformation, we continue to make changes to how we are organized and how we build and deliver our technology.

If our strategy for addressing our customer needs, or the architectures and solutions we develop do not meet those needs, or the changes we are making in how we are organized and how we build and deliver our technology is incorrect or ineffective, our business could be harmed.

Furthermore, we may not execute successfully on our vision or strategy because of challenges with regard to product planning and timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors, some of which may also be our strategic alliance partners, providing those solutions before we do and loss of market share, revenue, and earnings. In addition, the growth in demand for technology delivered as a service enables new competitors to enter the market. The success of new products depends on several factors, including proper new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. The products and technologies in our other product categories and key growth areas may not prove to have the market success we anticipate, and we may not successfully identify and invest in other emerging or new products.

CHANGES IN INDUSTRY STRUCTURE AND MARKET CONDITIONS COULD LEAD TO CHARGES RELATED TO DISCONTINUANCES OF CERTAIN OF OUR PRODUCTS OR BUSINESSES, ASSET IMPAIRMENTS AND WORKFORCE REDUCTIONS OR RESTRUCTURINGS

In response to changes in industry and market conditions, we may be required to strategically realign our resources and to consider restructuring, disposing of, or otherwise exiting businesses. Any resource realignment, or decision to limit investment in or dispose of or otherwise exit businesses, may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction or restructuring costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Although in certain instances our supply agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, our loss contingencies may include liabilities for contracts that we cannot cancel with contract manufacturers and suppliers. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings.

In August 2014, as part of our strategy of continuing to invest in growth, innovation and talent, while also managing costs and driving efficiencies, we announced a restructuring plan. We began taking action under this plan in the first quarter of fiscal 2015 and the plan has been substantially completed. The implementation of this restructuring plan may be disruptive to our business, and following completion of the restructuring plan our business may not be more efficient or effective than prior to implementation of the plan. Our restructuring activities, including any related charges and the impact of the related headcount restructurings, could have a material adverse effect on our business, operating results, and financial condition.

OVER THE LONG TERM WE INTEND TO INVEST IN ENGINEERING, SALES, SERVICE AND MARKETING ACTIVITIES, AND THESE INVESTMENTS MAY ACHIEVE DELAYED, OR LOWER THAN EXPECTED, BENEFITS WHICH COULD HARM OUR OPERATING RESULTS

While we intend to focus on managing our costs and expenses, over the long term, we also intend to invest in personnel and other resources related to our engineering, sales, service and marketing functions as we realign and dedicate resources on key growth areas, such as data center virtualization, software, security, and cloud, and we also intend to focus on maintaining leadership in routing, switching and services. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

OUR BUSINESS SUBSTANTIALLY DEPENDS UPON THE CONTINUED GROWTH OF THE INTERNET AND INTERNET-BASED SYSTEMS

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

Because of the rapid introduction of new products and changing customer requirements related to matters such as cost-effectiveness and security, we believe that there could be performance problems with Internet communications in the future, which could receive

a high degree of publicity and visibility. Because we are a large supplier of networking products, our business, operating results, and financial condition may be materially adversely affected, regardless of whether or not these problems are due to the performance of our own products. Such an event could also result in a material adverse effect on the market price of our common stock independent of direct effects on our business.

WE HAVE MADE AND EXPECT TO CONTINUE TO MAKE ACQUISITIONS THAT COULD DISRUPT OUR OPERATIONS AND HARM OUR OPERATING RESULTS

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

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired companies, particularly companies with large and widespread operations and/or complex products, such as Scientific-Atlanta, WebEx, Starent, Tandberg and NDS Group Limited
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions
- Potential difficulties in completing projects associated with in-process research and development intangibles
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions
- Initial dependence on unfamiliar supply chains or relatively small supply partners
- Insufficient revenue to offset increased expenses associated with acquisitions
- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans

Acquisitions may also cause us to:

- Issue common stock that would dilute our current shareholders' percentage ownership
- Use a substantial portion of our cash resources, or incur debt, as we did in fiscal 2006 when we issued and sold \$6.5 billion in senior unsecured notes to fund our acquisition of Scientific-Atlanta
- Significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition
- Assume liabilities
- Record goodwill and intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges
- Incur amortization expenses related to certain intangible assets
- Incur tax expenses related to the effect of acquisitions on our intercompany R&D cost sharing arrangement and legal structure
- Incur large and immediate write-offs and restructuring and other related expenses
- Become subject to intellectual property or other litigation

Mergers and acquisitions of high-technology companies are inherently risky and subject to many factors outside of our control, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products and technologies to a failure to do so. Even when an acquired company has already developed and marketed

products, there can be no assurance that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products.

From time to time, we have made acquisitions that resulted in charges in an individual quarter. These charges may occur in any particular quarter, resulting in variability in our quarterly earnings. In addition, our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions. Risks related to new product development also apply to acquisitions. See the risk factors above, including the risk factor entitled “We depend upon the development of new products and enhancements to existing products, and if we fail to predict and respond to emerging technological trends and customers’ changing needs, our operating results and market share may suffer” for additional information.

ENTRANCE INTO NEW OR DEVELOPING MARKETS EXPOSES US TO ADDITIONAL COMPETITION AND WILL LIKELY INCREASE DEMANDS ON OUR SERVICE AND SUPPORT OPERATIONS

As we focus on new market opportunities and key growth areas, we will increasingly compete with large telecommunications equipment suppliers as well as startup companies. Several of our competitors may have greater resources, including technical and engineering resources, than we do. Additionally, as customers in these markets complete infrastructure deployments, they may require greater levels of service, support, and financing than we have provided in the past, especially in emerging countries. Demand for these types of service, support, or financing contracts may increase in the future. There can be no assurance that we can provide products, service, support, and financing to effectively compete for these market opportunities.

Further, provision of greater levels of services, support and financing by us may result in a delay in the timing of revenue recognition. In addition, entry into other markets has subjected and will subject us to additional risks, particularly to those markets, including the effects of general market conditions and reduced consumer confidence. For example, as we add direct selling capabilities globally to meet changing customer demands, we will face increased legal and regulatory requirements.

INDUSTRY CONSOLIDATION MAY LEAD TO INCREASED COMPETITION AND MAY HARM OUR OPERATING RESULTS

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. For example, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them with the ability to provide end-to-end technology solutions for the enterprise data center. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.

PRODUCT QUALITY PROBLEMS COULD LEAD TO REDUCED REVENUE, GROSS MARGINS, AND NET INCOME

We produce highly complex products that incorporate leading-edge technology, including both hardware and software. Software typically contains bugs that can unexpectedly interfere with expected operations. There can be no assurance that our pre-shipment testing programs will be adequate to detect all defects, either ones in individual products or ones that could affect numerous shipments, which might interfere with customer satisfaction, reduce sales opportunities, or affect gross margins. From time to time, we have had to replace certain components and provide remediation in response to the discovery of defects or bugs in products that we had shipped. There can be no assurance that such remediation, depending on the product involved, would not have a material impact. An inability to cure a product defect could result in the failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, inventory costs, or product reengineering expenses, any of which could have a material impact on our revenue, margins, and net income. For example, in the second quarter of fiscal 2014, we recorded a pre-tax charge of \$655 million related to the expected remediation costs for certain products sold in prior fiscal years containing memory components manufactured by a single supplier between 2005 and 2010. The corresponding liability was reduced by \$164 million related to an adjustment recorded in the third quarter of fiscal 2015.

DUE TO THE GLOBAL NATURE OF OUR OPERATIONS, POLITICAL OR ECONOMIC CHANGES OR OTHER FACTORS IN A SPECIFIC COUNTRY OR REGION COULD HARM OUR OPERATING RESULTS AND FINANCIAL CONDITION

We conduct significant sales and customer support operations in countries around the world. As such, our growth depends in part on our increasing sales into emerging countries. We also depend on non-U.S. operations of our contract manufacturers, component suppliers and distribution partners. Although sales in several of our emerging countries decreased in recent periods, including in fiscal 2014 and fiscal 2015, several of our emerging countries generally have been relatively fast growing, and we have announced plans to expand our commitments and expectations in certain of those countries. Although we saw positive business momentum in certain emerging countries during the first half of fiscal 2016, we continue to assess the sustainability of improvements in these countries. Our future results could be materially adversely affected by a variety of political, economic or other factors relating to our operations inside and outside the United States, including impacts from global central bank monetary policy; issues related to the political relationship between the United States and other countries that can affect the willingness of customers in those countries to purchase products from companies headquartered in the United States; and the challenging and inconsistent global macroeconomic environment, any or all of which could have a material adverse effect on our operating results and financial condition, including, among others, the following:

- Foreign currency exchange rates
- Political or social unrest
- Economic instability or weakness or natural disasters in a specific country or region, including the current economic challenges in China and global economic ramifications of Chinese economic difficulties; environmental and trade protection measures and other legal and regulatory requirements, some of which may affect our ability to import our products, to export our products from, or sell our products in various countries
- Political considerations that affect service provider and government spending patterns
- Health or similar issues, such as a pandemic or epidemic
- Difficulties in staffing and managing international operations
- Adverse tax consequences, including imposition of withholding or other taxes on our global operations

WE ARE EXPOSED TO THE CREDIT RISK OF SOME OF OUR CUSTOMERS AND TO CREDIT EXPOSURES IN WEAKENED MARKETS, WHICH COULD RESULT IN MATERIAL LOSSES

Most of our sales are on an open credit basis, with typical payment terms of 30 days in the United States and, because of local customs or conditions, longer in some markets outside the United States. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Beyond our open credit arrangements, we have also experienced demands for customer financing and facilitation of leasing arrangements. We expect demand for customer financing to continue, and recently we have been experiencing an increase in this demand as the credit markets have been impacted by the challenging and inconsistent global macroeconomic environment, including increased demand from customers in certain emerging countries.

We believe customer financing is a competitive factor in obtaining business, particularly in serving customers involved in significant infrastructure projects. Our loan financing arrangements may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services.

Our exposure to the credit risks relating to our financing activities described above may increase if our customers are adversely affected by a global economic downturn or periods of economic uncertainty. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks.

In the past, there have been significant bankruptcies among customers both on open credit and with loan or lease financing arrangements, particularly among Internet businesses and service providers, causing us to incur economic or financial losses. There can be no assurance that additional losses will not be incurred. Although these losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. A portion of our sales is derived through our distributors. These distributors are generally given business terms that allow them to return a

portion of inventory, receive credits for changes in selling prices, and participate in various cooperative marketing programs. We maintain estimated accruals and allowances for such business terms. However, distributors tend to have more limited financial resources than other resellers and end-user customers and therefore represent potential sources of increased credit risk, because they may be more likely to lack the reserve resources to meet payment obligations. Additionally, to the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

WE ARE EXPOSED TO FLUCTUATIONS IN THE MARKET VALUES OF OUR PORTFOLIO INVESTMENTS AND IN INTEREST RATES; IMPAIRMENT OF OUR INVESTMENTS COULD HARM OUR EARNINGS

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available-for-sale and, consequently, are recorded on our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income (loss), net of tax. Our portfolio includes fixed income securities and equity investments in publicly traded companies, the values of which are subject to market price volatility to the extent unhedged. If such investments suffer market price declines, as we experienced with some of our investments in the past, we may recognize in earnings the decline in the fair value of our investments below their cost basis when the decline is judged to be other than temporary. For information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, refer to the section titled "Quantitative and Qualitative Disclosures About Market Risk." Our investments in private companies are subject to risk of loss of investment capital. These investments are inherently risky because the markets for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire investment in these companies.

WE ARE EXPOSED TO FLUCTUATIONS IN CURRENCY EXCHANGE RATES THAT COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS AND CASH FLOWS

Because a significant portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. Historically, our primary exposures have related to nondollar-denominated sales in Japan, Canada, and Australia and certain nondollar-denominated operating expenses and service cost of sales in Europe, Latin America, and Asia, where we sell primarily in U.S. dollars. Additionally, we have exposures to emerging market currencies, which can have extreme currency volatility. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials to the extent that we must purchase components in foreign currencies.

Currently, we enter into foreign exchange forward contracts and options to reduce the short-term impact of foreign currency fluctuations on certain foreign currency receivables, investments, and payables. In addition, we periodically hedge anticipated foreign currency cash flows. Our attempts to hedge against these risks may result in an adverse impact on our net income.

OUR PROPRIETARY RIGHTS MAY PROVE DIFFICULT TO ENFORCE

We generally rely on patents, copyrights, trademarks, and trade secret laws to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, or circumvented or that our rights will, in fact, provide competitive advantages to us. Furthermore, many key aspects of networking technology are governed by industrywide standards, which are usable by all market entrants. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled us to be successful.

WE MAY BE FOUND TO INFRINGE ON INTELLECTUAL PROPERTY RIGHTS OF OTHERS

Third parties, including customers, have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in

advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected. For additional information regarding our indemnification obligations, see Note 12(g) to the Consolidated Financial Statements.

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

WE RELY ON THE AVAILABILITY OF THIRD-PARTY LICENSES

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

OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED AND DAMAGE TO OUR REPUTATION MAY OCCUR DUE TO PRODUCTION AND SALE OF COUNTERFEIT VERSIONS OF OUR PRODUCTS

As is the case with leading products around the world, our products are subject to efforts by third parties to produce counterfeit versions of our products. While we work diligently with law enforcement authorities in various countries to block the manufacture of counterfeit goods and to interdict their sale, and to detect counterfeit products in customer networks, and have succeeded in prosecuting counterfeiters and their distributors, resulting in fines, imprisonment and restitution to us, there can be no guarantee that such efforts will succeed. While counterfeiters often aim their sales at customers who might not have otherwise purchased our products due to lack of verifiability of origin and service, such counterfeit sales, to the extent they replace otherwise legitimate sales, could adversely affect our operating results.

OUR OPERATING RESULTS AND FUTURE PROSPECTS COULD BE MATERIALLY HARMED BY UNCERTAINTIES OF REGULATION OF THE INTERNET

Currently, few laws or regulations apply directly to access or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate. Such regulations could include matters such as voice over the Internet or using IP, encryption technology, sales or other taxes on Internet product or service sales, and access charges for Internet service providers. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products and, at the same time, increase the cost of selling our products, which could have a material adverse effect on our business, operating results, and financial condition.

CHANGES IN TELECOMMUNICATIONS REGULATION AND TARIFFS COULD HARM OUR PROSPECTS AND FUTURE SALES

Changes in telecommunications requirements, or regulatory requirements in other industries in which we operate, in the United States or other countries could affect the sales of our products. In particular, we believe that there may be future changes in U.S. telecommunications regulations that could slow the expansion of the service providers' network infrastructures and materially adversely affect our business, operating results, and financial condition, including proposed "net neutrality" rules to the extent they impact decisions on investment in network infrastructure.

Future changes in tariffs by regulatory agencies or application of tariff requirements to currently untariffed services could affect the sales of our products for certain classes of customers. Additionally, in the United States, our products must comply with various requirements and regulations of the Federal Communications Commission and other regulatory authorities. In countries outside

of the United States, our products must meet various requirements of local telecommunications and other industry authorities. Changes in tariffs or failure by us to obtain timely approval of products could have a material adverse effect on our business, operating results, and financial condition.

FAILURE TO RETAIN AND RECRUIT KEY PERSONNEL WOULD HARM OUR ABILITY TO MEET KEY OBJECTIVES

Our success has always depended in large part on our ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. Competition for these personnel is intense, especially in the Silicon Valley area of Northern California. Stock incentive plans are designed to reward employees for their long-term contributions and provide incentives for them to remain with us. Volatility or lack of positive performance in our stock price or equity incentive awards, or changes to our overall compensation program, including our stock incentive program, resulting from the management of share dilution and share-based compensation expense or otherwise, may also adversely affect our ability to retain key employees. As a result of one or more of these factors, we may increase our hiring in geographic areas outside the United States, which could subject us to additional geopolitical and exchange rate risk. The loss of services of any of our key personnel; the inability to retain and attract qualified personnel in the future; or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions. In addition, companies in our industry whose employees accept positions with competitors frequently claim that competitors have engaged in improper hiring practices. We have received these claims in the past and may receive additional claims to this effect in the future.

ADVERSE RESOLUTION OF LITIGATION OR GOVERNMENTAL INVESTIGATIONS MAY HARM OUR OPERATING RESULTS OR FINANCIAL CONDITION

We are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. For example, Brazilian authorities have investigated our Brazilian subsidiary and certain of its current and former employees, as well as a Brazilian importer of our products, and its affiliates and employees, relating to alleged evasion of import taxes and alleged improper transactions involving the subsidiary and the importer. Brazilian tax authorities have assessed claims against our Brazilian subsidiary based on a theory of joint liability with the Brazilian importer for import taxes, interest, and penalties. In the first quarter of fiscal 2013, the Brazilian federal tax authorities asserted an additional claim against our Brazilian subsidiary based on a theory of joint liability with respect to an alleged underpayment of income taxes, social taxes, interest, and penalties by a Brazilian distributor. The asserted claims by Brazilian federal tax authorities are for calendar years 2003 through 2008 and the related asserted claims by the tax authorities from the state of Sao Paulo are for calendar years 2005 through 2007. The total asserted claims by Brazilian state and federal tax authorities aggregate to \$209 million for the alleged evasion of import and other taxes, \$942 million for interest, and \$929 million for various penalties, all determined using an exchange rate as of January 23, 2016. We have completed a thorough review of the matters and believe the asserted claims against our Brazilian subsidiary are without merit, and we are defending the claims vigorously. While we believe there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserting joint liability with the importer, we are unable to determine the likelihood of an unfavorable outcome against our Brazilian subsidiary and are unable to reasonably estimate a range of loss, if any. We do not expect a final judicial determination for several years. An unfavorable resolution of lawsuits or governmental investigations could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the matters in which we are involved, see Item 1, “Legal Proceedings,” contained in Part II of this report.

CHANGES IN OUR PROVISION FOR INCOME TAXES OR ADVERSE OUTCOMES RESULTING FROM EXAMINATION OF OUR INCOME TAX RETURNS COULD ADVERSELY AFFECT OUR RESULTS

Our provision for income taxes is subject to volatility and could be adversely affected by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by changes to domestic manufacturing deduction laws, regulations, or interpretations thereof; by expiration of or lapses in tax incentives; by transfer pricing adjustments, including the effect of acquisitions on our intercompany R&D cost sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, treaties, or interpretations thereof, including possible changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attribute prescribed in the accounting guidance for uncertainty in income taxes. The Organisation for Economic Co-operation and Development (OECD), an international association comprised of 34 countries, including the United States, has recently made changes to numerous long-standing tax principles. There can be no assurance that these changes, once adopted by countries, will not have an adverse impact on our provision for income taxes. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the

continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

OUR BUSINESS AND OPERATIONS ARE ESPECIALLY SUBJECT TO THE RISKS OF EARTHQUAKES, FLOODS, AND OTHER NATURAL CATASTROPHIC EVENTS

Our corporate headquarters, including certain of our research and development operations are located in the Silicon Valley area of Northern California, a region known for seismic activity. Additionally, a certain number of our facilities are located near rivers that have experienced flooding in the past. Also certain of our suppliers and logistics centers are located in regions that have been or may be affected by earthquake, tsunami and flooding activity which in the past has disrupted, and in the future could disrupt, the flow of components and delivery of products. A significant natural disaster, such as an earthquake, a hurricane, volcano, or a flood, could have a material adverse impact on our business, operating results, and financial condition.

MAN-MADE PROBLEMS SUCH AS CYBER-ATTACKS, DATA PROTECTION BREACHES, COMPUTER VIRUSES OR TERRORISM MAY DISRUPT OUR OPERATIONS, HARM OUR OPERATING RESULTS AND DAMAGE OUR REPUTATION, AND CYBER-ATTACKS OR DATA PROTECTION BREACHES ON OUR CUSTOMERS' NETWORKS, OR IN CLOUD-BASED SERVICES PROVIDED BY OR ENABLED BY US, COULD RESULT IN LIABILITY FOR US, DAMAGE OUR REPUTATION OR OTHERWISE HARM OUR BUSINESS

Despite our implementation of network security measures, the products and services we sell to customers, and our servers, data centers and the cloud-based solutions on which our data, and data of our customers, suppliers and business partners are stored, are vulnerable to cyber-attacks, data protection breaches, computer viruses, and similar disruptions from unauthorized tampering or human error. Any such event could compromise our networks or those of our customers, and the information stored on our networks or those of our customers could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and could have a material adverse effect on our business, operating results, and financial condition and may cause damage to our reputation. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may be costly to implement and meet with resistance, and may not be successful. Breaches of network security in our customers' networks, or in cloud-based services provided by or enabled by us, regardless of whether the breach is attributable to a vulnerability in our products or services, could result in liability for us, damage our reputation or otherwise harm our business.

In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Likewise, events such as loss of infrastructure and utilities services such as energy, transportation, or telecommunications could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, our business, operating results, and financial condition could be materially and adversely affected.

IF WE DO NOT SUCCESSFULLY MANAGE OUR STRATEGIC ALLIANCES, WE MAY NOT REALIZE THE EXPECTED BENEFITS FROM SUCH ALLIANCES AND WE MAY EXPERIENCE INCREASED COMPETITION OR DELAYS IN PRODUCT DEVELOPMENT

We have several strategic alliances with large and complex organizations and other companies with which we work to offer complementary products and services and have established a joint venture to market services associated with our Cisco Unified Computing System products. These arrangements are generally limited to specific projects, the goal of which is generally to facilitate product compatibility and adoption of industry standards. There can be no assurance we will realize the expected benefits from these strategic alliances or from the joint venture. If successful, these relationships may be mutually beneficial and result in industry growth. However, alliances carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic alliance and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development or other operational difficulties. Joint ventures can be difficult to manage, given the potentially different interests of joint venture partners.

OUR STOCK PRICE MAY BE VOLATILE

Historically, our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results and the published expectations of analysts and as a result of announcements by our competitors and us. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, security of our products, or significant transactions can cause changes in our stock price. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, in particular, and that

have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our current or potential competitors, may materially adversely affect the market price of our common stock in the future. Additionally, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our stock incentive program, may adversely affect our ability to retain key employees, virtually all of whom are compensated, in part, based on the performance of our stock price.

THERE CAN BE NO ASSURANCE THAT OUR OPERATING RESULTS AND FINANCIAL CONDITION WILL NOT BE ADVERSELY AFFECTED BY OUR INCURRENCE OF DEBT

As of the end of the second quarter of fiscal 2016, we have senior unsecured notes outstanding in an aggregate principal amount of \$24.4 billion that mature at specific dates from calendar year 2016 through 2040, including \$3.0 billion that matures and is payable in February 2016. We have also established a commercial paper program under which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$3.0 billion, and we had no commercial paper notes outstanding under this program as of January 23, 2016. The outstanding senior unsecured notes bear fixed-rate interest payable semiannually, except \$2.4 billion of the notes which bears interest at a floating rate payable quarterly. The fair value of the long-term debt is subject to market interest rate volatility. The instruments governing the senior unsecured notes contain certain covenants applicable to us and our wholly-owned subsidiaries that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. In addition, we will be required to have available in the United States sufficient cash to service the interest on our debt and repay all of our notes on maturity. There can be no assurance that our incurrence of this debt or any future debt will be a better means of providing liquidity to us than would our use of our existing cash resources, including cash currently held offshore. Further, we cannot be assured that our maintenance of this indebtedness or incurrence of future indebtedness will not adversely affect our operating results or financial condition. In addition, changes by any rating agency to our credit rating can negatively impact the value and liquidity of both our debt and equity securities, as well as the terms upon which we may borrow under our commercial paper program or future debt issuances.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) None.
- (b) None.
- (c) Issuer Purchases of Equity Securities (in millions, except per-share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 25, 2015 to November 21, 2015	12	\$ 28.08	12	\$ 2,786
November 22, 2015 to December 19, 2015	11	\$ 27.11	11	\$ 2,475
December 20, 2015 to January 23, 2016	25	\$ 24.76	25	\$ 1,852
Total	48	\$ 26.12	48	

On September 13, 2001, we announced that our Board of Directors had authorized a stock repurchase program. As of January 23, 2016, our Board of Directors had authorized the repurchase of up to \$97 billion of common stock under this program. As of January 23, 2016, we had repurchased and retired 4.5 billion shares of our common stock at an average price of \$20.97 per share for an aggregate purchase price of \$95.1 billion since inception of the stock repurchase program.

On February 10, 2016, our Board of Directors authorized a \$15 billion increase to the stock repurchase program. The remaining authorized amount for stock repurchases under this program, including the additional authorization, is approximately \$16.9 billion, with no termination date.

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of shares withheld to meet applicable tax withholding requirements. Although these withheld shares are not issued or considered common stock repurchases under our stock repurchase program and therefore are not included in the preceding table, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting (see Note 13 to the Consolidated Financial Statements).

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following documents are filed as Exhibits to this report:

10.1	Cisco Systems, Inc. 2005 Stock Incentive Plan (including related form agreements)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cisco Systems, Inc.

Date: February 18, 2016

By /s/ Kelly A. Kramer

Kelly A. Kramer
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and duly authorized signatory)

EXHIBIT INDEX

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CISCO SYSTEMS, INC.
2005 STOCK INCENTIVE PLAN
AS AMENDED AND RESTATED
Effective as of November 19, 2013

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CISCO SYSTEMS, INC.

**2005 STOCK INCENTIVE PLAN
AS AMENDED AND RESTATED
(Effective as of November 19, 2013)**

SECTION 1. INTRODUCTION.

The Company's shareholders approved the Cisco Systems, Inc. 2005 Stock Incentive Plan, as amended and restated and effective on December 7, 2011. The Company's Board of Directors approved an amendment and restatement of the Plan; provided that, the amendment and restatement of the Plan shall become effective upon its approval by Company shareholders. If the Company's shareholders do not approve the amendment and restatement of the Plan, Awards will be made under the Plan as approved by shareholders on December 7, 2011.

The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by offering Key Employees an opportunity to share in such long-term success by acquiring a proprietary interest in the Company.

The Plan seeks to achieve this purpose by providing for discretionary long-term incentive Awards in the form of Options (which may constitute Incentive Stock Options or Nonstatutory Stock Options), Stock Appreciation Rights, Stock Grants, and Stock Units.

The Plan shall be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or any related Stock Option Agreement, SAR Agreement, Stock Grant Agreement or Stock Unit Agreement.

SECTION 2. DEFINITIONS.

- (a) "Affiliate" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.
 - (b) "Award" means any award of an Option, SAR, Stock Grant or Stock Unit under the Plan.
 - (c) "Board" means the Board of Directors of the Company, as constituted from time to time.
 - (d) "Cashless Exercise" means, to the extent that a Stock Option Agreement so provides and as permitted by applicable law, a program approved by the Committee in which payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price and, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates, including, but not limited to, U.S. federal and state income taxes, payroll taxes, and foreign taxes, if applicable.
 - (e) "Cause" means, except as may otherwise be provided in a Participant's employment agreement or Award agreement, a conviction of a Participant for a felony crime or the failure of a Participant to contest prosecution for a felony crime, or a Participant's misconduct, fraud or dishonesty (as such terms are defined by the Committee in its sole discretion), or any unauthorized use or disclosure of confidential information or trade secrets, in each case as determined by the Committee, and the Committee's determination shall be conclusive and binding.
 - (f) "Change In Control" except as may otherwise be provided in a Participant's employment agreement or Award agreement, means the occurrence of any of the following:
 - (i) A change in the composition of the Board over a period of thirty-six consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination; or
 - (ii) The acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing more than 35% of the total combined voting power of the Company's then outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which the Board does not recommend such shareholders accept.
 - (g) "Code" means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.
 - (h) "Committee" means a committee described in Section 3.
 - (i) "Common Stock" means the Company's common stock.
 - (j) "Company" means Cisco Systems, Inc., a California corporation.
 - (k) "Consultant" means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate, other than as an Employee or Director or Non-Employee Director.
-

(l) "Corporate Transaction" except as may otherwise be provided in a Participant's employment agreement or Award agreement, means the occurrence of any of the following shareholder approved transactions:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not shareholders of the Company immediately prior to such merger, consolidation or other reorganization; or

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets.

A transaction shall not constitute a Corporate Transaction if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transactions.

(m) "Covered Employees" means those persons who are subject to the limitations of Code Section 162(m).

(n) "Director" means a member of the Board who is also an Employee.

(o) "Disability" means that the Key Employee is classified as disabled under a long-term disability policy of the Company or, if no such policy applies, the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(p) "Employee" means an individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Exercise Price" means, in the case of an Option, the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value in determining the amount payable upon exercise of such SAR.

(s) "Fair Market Value" means the market price of a Share as determined in good faith by the Committee. The Fair Market Value shall be determined by the following:

(i) If the Shares were traded over-the-counter or listed with NASDAQ on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted by the NASDAQ system for the date in question or (ii) if the Common Stock is listed on the New York Stock Exchange or the American Stock Exchange on the date in question, the Fair Market Value is the closing selling price for the Common Stock as such price is officially quoted in the composite tape of transactions on the exchange determined by the Committee to be the primary market for the Common Stock for the date in question; provided, however, that if there is no such reported price for the Common Stock for the date in question under (i) or (ii), then such price on the last preceding date for which such price exists shall be determinative of Fair Market Value.

If neither (i) or (ii) are applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Western Edition of The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

(t) "Fiscal Year" means the Company's fiscal year.

(u) "Grant" means any grant of an Award under the Plan.

(v) "Incentive Stock Option" or "ISO" means an incentive stock option described in Code Section 422.

(w) "Key Employee" means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.

(x) "Non-Employee Director" means a member of the Board who is not an Employee.

(y) "Nonstatutory Stock Option" or "NSO" means a stock option that is not an ISO.

(z) "Option" means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.

(aa) "Optionee" means an individual, estate or other entity that holds an Option.

(bb) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(cc) "Participant" means an individual or estate or other entity that holds an Award.

(dd) “Performance Goal” means an objective formula or standard determined by the Committee with respect to each Performance Period utilizing one or more of the following factors and any objectively verifiable adjustment(s) thereto permitted and preestablished by the Committee in accordance with Code Section 162(m): (i) operating income, operating cash flow and operating expense; (ii) earnings before interest, taxes, depreciation and amortization; (iii) earnings; (iv) cash flow; (v) market share; (vi) sales; (vii) revenue; (viii) profits before interest and taxes; (ix) expenses; (x) cost of goods sold; (xi) profit/loss or profit margin; (xii) working capital; (xiii) return on capital, equity or assets; (xiv) earnings per share; (xv) economic value added; (xvi) stock price; (xvii) price/earnings ratio; (xviii) debt or debt-to-equity; (xix) accounts receivable; (xx) writeoffs; (xxi) cash; (xxii) assets; (xxiii) liquidity; (xxiv) operations; (xxv) intellectual property (e.g., patents); (xxvi) product development; (xxvii) regulatory activity; (xxviii) manufacturing, production or inventory; (xxix) mergers and acquisitions or divestitures; (xxx) financings; (xxxi) customer satisfaction; and/or (xxxii) total shareholder return, each with respect to the Company and/or one or more of its affiliates or operating units. Awards issued to persons who are not Covered Employees may take into account other factors (including subjective factors).

(ee) “Performance Period” means any period not exceeding 36 months as determined by the Committee, in its sole discretion. The Committee may establish different Performance Periods for different Participants, and the Committee may establish concurrent or overlapping Performance Periods.

(ff) “Plan” means this Cisco Systems, Inc. 2005 Stock Incentive Plan as amended and restated, and as it may be further amended from time to time.

(gg) “Previous Plan Award” means any award of an Option, SAR, Stock Grant or Stock Unit under the Cisco Systems, Inc. 1996 Stock Incentive Plan, the Cisco Systems, Inc. SA Acquisition Long-Term Incentive Plan or the Cisco Systems, Inc. WebEx Acquisition Long-Term Incentive Plan.

(hh) “Re-Price” means that the Company has lowered or reduced the Exercise Price of outstanding Options and/or outstanding SARs for any Participant(s), whether through amendment, cancellation, or replacement grants, or any other means.

(ii) “SAR Agreement” means the agreement described in Section 8 evidencing each Award of a Stock Appreciation Right.

(jj) “SEC” means the Securities and Exchange Commission.

(kk) “Section 16 Persons” means those officers, directors or other persons who are subject to Section 16 of the Exchange Act.

(ll) “Securities Act” means the Securities Act of 1933, as amended.

(mm) “Service” means service as an Employee, Director, Non-Employee Director or Consultant. A Participant’s Service does not terminate when continued service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to continuing ISO status, a common-law employee’s Service will be treated as terminating ninety (90) days after such Employee went on leave, unless such Employee’s right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Committee determines which leaves count toward Service, and when Service terminates for all purposes under the Plan. Further, unless otherwise determined by the Committee, a Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant provides service to the Company, a Parent, Subsidiary or Affiliate, or a transfer between entities (the Company or any Parent, Subsidiary, or Affiliate); provided that there is no interruption or other termination of Service.

(nn) “Share” means one share of Common Stock.

(oo) “Stock Appreciation Right” or “SAR” means a stock appreciation right awarded under the Plan.

(pp) “Stock Grant” means Shares awarded under the Plan.

(qq) “Stock Grant Agreement” means the agreement described in Section 9 evidencing each Award of a Stock Grant.

(rr) “Stock Option Agreement” means the agreement described in Section 6 evidencing each Award of an Option.

(ss) “Stock Unit” means a bookkeeping entry representing the equivalent of one Share, as awarded under the Plan.

(tt) “Stock Unit Agreement” means the agreement described in Section 10 evidencing each Award of a Stock Unit.

(uu) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(vv) “10-Percent Shareholder” means an individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. The Board or a Committee appointed by the Board shall administer the Plan. Unless the Board provides otherwise, the Company’s Compensation & Management Development Committee shall be the Committee. Members of the Committee

shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

The Committee shall have membership composition which enables (i) Awards to Section 16 Persons to qualify as exempt from liability under Section 16(b) of the Exchange Act and (ii) Awards to Covered Employees to qualify as performance-based compensation as provided under Code Section 162(m).

The Board may also appoint one or more separate committees of the Board, each composed of two or more directors of the Company who need not qualify under Rule 16b-3 or Code Section 162(m), that may administer the Plan with respect to Key Employees who are not Section 16 Persons or Covered Employees, respectively, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

Notwithstanding the foregoing, the Board shall constitute the Committee and shall administer the Plan with respect to Non-Employee Directors, shall grant Awards under the Plan to such Non-Employee Directors, and shall determine all terms of such Awards.

(b) Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have full authority and sole discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

- (i) selecting Key Employees who are to receive Awards under the Plan;
- (ii) determining the type, number, vesting requirements and other features and conditions of such Awards and amending such Awards;
- (iii) correcting any defect, supplying any omission, or reconciling any inconsistency in the Plan or any Award agreement;
- (iv) accelerating the vesting, or extending the post-termination exercise term, of Awards at any time and under such terms and conditions as it deems appropriate;
- (v) interpreting the Plan;
- (vi) making all other decisions relating to the operation of the Plan; and
- (vii) adopting such plans or subplans as may be deemed necessary or appropriate to provide for the participation by Key Employees of the Company and its Subsidiaries and Affiliates who reside outside the U.S., which plans and/or subplans shall be attached hereto as Appendices.

The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) Indemnification. To the maximum extent permitted by applicable law, each member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Stock Option Agreement, SAR Agreement, Stock Grant Agreement or Stock Unit Agreement, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

SECTION 4. GENERAL.

(a) General Eligibility. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee, in its sole discretion.

(b) Incentive Stock Options. Only Key Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Shareholder shall not be eligible for the grant of an ISO unless the requirements set forth in Section 422(c)(5) of the Code are satisfied.

(c) Restrictions on Shares. Any Shares issued pursuant to an Award shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine, in its sole discretion. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law. In no event shall the Company be required to issue fractional Shares under this Plan.

(d) Beneficiaries. Unless stated otherwise in an Award agreement, a Participant may designate one or more beneficiaries with respect to an Award by timely filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Participant's death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then after a Participant's death any vested Award(s) shall be transferred or distributed to the Participant's estate.

(e) Performance Conditions. The Committee may, in its discretion, include performance conditions in an Award or grant an Award upon the satisfaction of performance conditions. If performance conditions are included in Awards to Covered Employees, then such Awards may be subject to the achievement of Performance Goals established by the Committee. Such Performance Goals shall be established and

administered pursuant to the requirements of Code Section 162(m). Before any Shares underlying an Award or any Award payments subject to Performance Goals are released to a Covered Employee with respect to a Performance Period, the Committee shall certify in writing that the Performance Goals for such Performance Period have been satisfied. Awards with performance conditions that are granted to Key Employees who are not Covered Employees need not comply with the requirements of Code Section 162(m).

(f) No Rights as a Shareholder. A Participant, or a transferee of a Participant, shall have no rights as a shareholder with respect to any Common Stock covered by an Award until such person has satisfied all of the terms and conditions to receive such Common Stock, has satisfied any applicable withholding or tax obligations relating to the Award and the Shares have been issued (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company).

(g) Termination of Service. Unless the applicable Award agreement or, with respect to Participants who reside in the U.S., the applicable employment agreement provides otherwise, the following rules shall govern the vesting, exercisability and term of outstanding Awards held by a Participant in the event of termination of such Participant's Service (in all cases subject to the expiration term of the Option or SAR as applicable): (i) upon termination of Service for any reason, all unvested portions of any outstanding Awards shall be immediately forfeited without consideration and the vested portions of any outstanding Stock Units shall be settled upon termination; (ii) if the Service of a Participant is terminated for Cause, then all unexercised Options and SARs, unvested portions of Stock Units and unvested portions of Stock Grants shall terminate and be forfeited immediately without consideration; (iii) if the Service of a Participant is terminated for any reason other than for Cause, death, or Disability, then the vested portion of his or her then-outstanding Options and/or SARs may be exercised by such Participant or his or her personal representative within three months after the date of such termination; or (iv) if the Service of a Participant is terminated due to death or Disability, the vested portion of his or her then-outstanding Options and/or SARs may be exercised within eighteen months after the date of termination of Service.

(h) Director Fees. Each Non-Employee Director may elect to receive a Stock Grant or Stock Unit under the Plan in lieu of payment of a portion of his or her regular annual retainer based on the Fair Market Value of the Shares on the date any regular annual retainer would otherwise be paid. For purposes of the Plan, a Non-Employee Director's regular annual retainer shall not include any additional retainer paid in connection with service on any committee of the Board or paid for any other reason. Such an election may be for any dollar or percentage amount equal to at least 25% of the Non-Employee Director's regular annual retainer (up to a limit of 100% of the Non-Employee Director's regular annual retainer). The election must be made prior to the beginning of the annual board of directors cycle which shall be any twelve month continuous period designated by the Board. Any amount of the regular annual retainer not elected to be received as a Stock Grant or Stock Unit shall be payable in cash in accordance with the Company's standard payment procedures. Shares granted under this Section 4(h) shall otherwise be subject to the terms of the Plan applicable to Non-Employee Directors or to Participants generally (other than provisions specifically applying only to Employees).

SECTION 5. SHARES SUBJECT TO PLAN AND SHARE LIMITS.

(a) Basic Limitations. The stock issuable under the Plan shall be authorized but unissued Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 694,000,000 Shares, subject to adjustment pursuant to Section 11. Shares issued as Stock Grants, pursuant to Stock Units or pursuant to the settlement of dividend equivalents will count against the Shares available for issuance under the Plan as 1.5 Shares for every 1 Share issued in connection with the Award or dividend equivalent.

(b) Additional Shares. If Awards are forfeited or are terminated for any other reason before being exercised or settled, then the Shares underlying such Awards, plus the number of additional Shares, if any, that counted against Shares available for issuance under the Plan in respect thereof at the time of Grant, shall again become available for Awards under the Plan. If a Previous Plan Award is forfeited or is terminated for any other reason before being exercised or settled, then the Shares underlying such Previous Plan Award shall again become available for Awards under this Plan. SARs shall be counted in full against the number of Shares available for issuance under the Plan, regardless of the number of Shares issued upon settlement of the SARs. In the event that withholding tax liabilities arising from an Award other than an Option or SAR are satisfied by the withholding of Shares by the Company, then the Shares so withheld, plus the number of additional Shares, if any, that counted against Shares available for issuance under the Plan in respect thereof at the time of Grant, shall again become available for Awards under the Plan. In the event that withholding tax liabilities arising from an Option or SAR are satisfied by the withholding of Shares by the Company, then the Shares so withheld shall not be added to the Shares available for Awards under the Plan. In addition, Shares that are exchanged by a Participant or withheld by the Company as full or partial payment in connection with the exercise or settlement of an Option or SAR shall not be available for subsequent Awards under the Plan and Shares repurchased on the open market with the proceeds of an Option exercise shall not again be made available for issuance under the Plan.

(c) Dividend Equivalents. Any dividend equivalents settled in Shares under the Plan shall be applied against the number of Shares available for Awards.

(d) Share Limits.

(i) Limits on Options. Subject to adjustment pursuant to Section 11, no Key Employee shall receive Options to purchase Shares during any Fiscal Year covering in excess of 5,000,000 Shares and the aggregate maximum number of Shares that may be issued in connection with ISOs shall be 694,000,000 Shares.

(ii) Limits on SARs. Subject to adjustment pursuant to Section 11, no Key Employee shall receive Awards of SARs during any Fiscal Year covering in excess of 5,000,000 Shares and the aggregate maximum number of Shares that may be issued in connection with SARs shall be 694,000,000 Shares.

(iii) Limits on Stock Grants and Stock Units. Subject to adjustment pursuant to Section 11, no Key Employee shall receive Stock Grants or Stock Units during any Fiscal Year covering, in the aggregate, in excess of 5,000,000 Shares.

(iv) Limits on Awards to Non-Employee Directors. Subject to adjustment pursuant to Section 11, no Non-Employee Director shall receive Awards during any Fiscal Year covering, in the aggregate, in excess of 50,000 Shares; provided that any Shares received pursuant to an election under Section 4(h) shall not count against such limit.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each Grant of an Option under the Plan shall be evidenced and governed exclusively by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement (including without limitation any performance conditions). The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall be subject to adjustment of such number in accordance with Section 11.

(c) Exercise Price. An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. The Exercise Price of an Option shall not be less than 100% of the Fair Market Value (110% for ISO grants to 10-Percent Shareholders) on the date of Grant.

(d) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an Option shall in no event exceed ten years from the date of Grant. Unless the applicable Stock Option Agreement provides otherwise, each Option shall vest and become exercisable with respect to 20% of the Shares subject to the Option upon completion of one year of Service measured from the vesting commencement date, the balance of the Shares subject to the Option shall vest and become exercisable in forty-eight equal installments upon completion of each month of Service thereafter, and the term of the Option shall be ten years from the date of Grant. A Stock Option Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events. Notwithstanding any other provision of the Plan, no Option can be exercised after the expiration date provided in the applicable Stock Option Agreement and no Option may provide that, upon exercise of the Option, a new Option will automatically be granted.

(e) Modifications or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of Shares, at the same or a different Exercise Price, and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not Re-Price outstanding Options unless there is approval by the Company shareholders and, unless a modification is necessary or desirable

to comply with any applicable law, regulation or rule, such modification of an Option shall not, without the consent of the Optionee, impair his or her rights or obligations under such Option.

(f) Assignment or Transfer of Options. Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, no Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime

of the Optionee only by the Optionee or by the guardian or legal representative of the Optionee. No Option or interest therein may be assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

SECTION 7. PAYMENT FOR OPTION SHARES.

The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows and if so provided for in an applicable Stock Option Agreement:

(i) Surrender of Stock. Payment for all or any part of the Exercise Price or Options may be made with Shares which have already been owned by the Optionee; provided that the Committee may, in its sole discretion, require that Shares tendered for payment be previously held by the Optionee for a minimum duration. Such Shares shall be valued at their Fair Market Value.

(ii) Cashless Exercise. Payment for all or any part of the Exercise Price may be made through Cashless Exercise at the Committee's sole discretion.

(iii) Other Forms of Payment. Payment for all or any part of the Exercise Price may be made in any other form that is consistent with applicable laws, regulations and rules and approved by the Committee.

In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Section 7. In the case of an NSO granted under the Plan, the Committee may, in its discretion at any time, accept payment in any form(s) described in this Section 7.

SECTION 8. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

(a) SAR Agreement. Each Grant of a SAR under the Plan shall be evidenced and governed exclusively by a SAR Agreement between the Participant and the Company. Such SAR shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a SAR Agreement (including without limitation any performance conditions). A SAR Agreement may provide for a maximum limit on the amount of any payout notwithstanding the Fair Market Value on the date of exercise of the SAR. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Participant's compensation.

(b) Number of Shares. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall be subject to adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each SAR Agreement shall specify the Exercise Price which shall be established by the Committee. The Exercise Price of a SAR shall not be less than 100% of the Fair Market Value on the date of Grant.

(d) Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR which shall not exceed ten years from the date of Grant. Unless the applicable SAR Agreement provides otherwise, each SAR shall vest and become exercisable with respect to 20% of the Shares subject to the SAR upon completion of one year of Service measured from the vesting commencement date, the balance of the Shares subject to the SAR shall vest and become exercisable in forty-eight equal installments upon completion of each month of Service thereafter, and the term of the SAR shall be ten years from the date of Grant. A SAR Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events. SARs may be awarded in combination with Options or Stock Grants, and such an Award shall provide that the SARs will not be exercisable unless the related Options or Stock Grants are forfeited. A SAR may be included in an ISO only at the time of Grant but may be included in an NSO at the time of Grant or at any subsequent time, but not later than six months before the expiration of such NSO. No SAR may provide that, upon exercise of the SAR, a new SAR will automatically be granted.

(e) Exercise of SARs. If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. Upon exercise of a SAR, the Participant (or any person having the right to exercise the SAR) shall receive from the Company (i) Shares, (ii) cash or (iii) any combination of Shares and cash, as the Committee shall determine at the time of Grant of the SAR, in its sole discretion. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of exercise) of the Shares subject to the SARs exceeds the Exercise Price of those Shares.

(f) Modification or Assumption of SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding stock appreciation rights or may accept the cancellation of outstanding stock appreciation rights (including stock appreciation rights)

granted by another issuer) in return for the grant of new SARs for the same or a different number of Shares, at the same or a different Exercise Price, and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not Re-Price outstanding SARs unless there is approval by the Company shareholders and, unless a modification is necessary or desirable to comply with any applicable law, regulation or rule, such modification of a SAR shall not, without the consent of the Participant, impair his or her rights or obligations under such SAR.

(g) Assignment or Transfer of SARs. Except as otherwise provided in the applicable SAR Agreement and then only to the extent permitted by applicable law, no SAR shall be transferable by the Participant other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable SAR Agreement, a SAR may be exercised during the lifetime of the Participant only by the Participant or by the guardian or legal representative of the Participant. No SAR or interest therein may be assigned, pledged or hypothecated by the Participant during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

SECTION 9. TERMS AND CONDITIONS FOR STOCK GRANTS.

(a) Amount and Form of Awards. Awards under this Section 9 may be granted in the form of a Stock Grant. Each Stock Grant Agreement shall specify the number of Shares to which the Stock Grant pertains and shall be subject to adjustment of such number in accordance with Section 11. A Stock Grant may also be awarded in combination with NSOs, and such an Award may provide that the Stock Grant will be forfeited in the event that the related NSOs are exercised.

(b) Stock Grant Agreement. Each Stock Grant awarded under the Plan shall be evidenced and governed exclusively by a Stock Grant Agreement between the Participant and the Company. Each Stock Grant shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Stock Grant Agreement (including without limitation any performance conditions). The provisions of the various Stock Grant Agreements entered into under the Plan need not be identical.

(c) Payment for Stock Grants. Stock Grants may be issued with or without cash consideration or any other form of legally permissible consideration approved by the Committee.

(d) Vesting Conditions. Each Stock Grant may or may not be subject to vesting. Any such vesting provision may provide that Shares shall vest based on Service over time or shall vest, in full or in installments, upon satisfaction of performance conditions specified in the Stock Grant Agreement which may include Performance Goals pursuant to Section 4(e). Unless the applicable Stock Grant Agreement provides otherwise, each Stock Grant shall vest with respect to 20% of the Shares subject to the Stock Grant upon completion of each year of Service on each of the first through fifth annual anniversaries of the vesting commencement date. A Stock Grant Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Assignment or Transfer of Stock Grants. Except as provided in the applicable Stock Grant Agreement, and then only to the extent permitted by applicable law, a Stock Grant awarded under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 9(e) shall be void. However, this Section 9(e) shall not preclude a Participant from designating a beneficiary who will receive any vested outstanding Stock Grant Awards in the event of the Participant's death, nor shall it preclude a transfer of vested Stock Grant Awards by will or by the laws of descent and distribution.

(f) Voting and Dividend Rights. The holder of a Stock Grant awarded under the Plan shall have the same voting, dividend and other rights as the Company's other shareholders. A Stock Grant Agreement, however, may require that the holder of such Stock Grant invest any cash dividends received in additional Shares subject to the Stock Grant. Such additional Shares subject to the Stock Grant shall be subject to the same conditions and restrictions as the Stock Grant with respect to which the dividends were paid. Such additional Shares subject to the Stock Grant shall not reduce the number of Shares available for issuance under Section 5.

(g) Modification or Assumption of Stock Grants. Within the limitations of the Plan, the Committee may modify or assume outstanding stock grants or may accept the cancellation of outstanding stock grants (including stock granted by another issuer) in return for the grant of new Stock Grants for the same or a different number of Shares and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not modify an outstanding Stock Grant such that the modification shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Grant, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule.

SECTION 10. TERMS AND CONDITIONS OF STOCK UNITS.

(a) Stock Unit Agreement. Each grant of Stock Units under the Plan shall be evidenced and governed exclusively by a Stock Unit Agreement between the Participant and the Company. Such Stock Units shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Stock Unit Agreement (including without limitation any performance conditions). The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the Participant's other compensation.

(b) Number of Shares. Each Stock Unit Agreement shall specify the number of Shares to which the Stock Unit Grant pertains and shall be subject to adjustment of such number in accordance with Section 11.

(c) Payment for Stock Units. Stock Units shall be issued without consideration.

(d) Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Any such vesting provision may provide that Shares shall vest based on Service over time or shall vest, in full or in installments, upon satisfaction of performance conditions specified in the Stock Unit Agreement which may include Performance Goals pursuant to Section 4(e). Unless the applicable Stock Unit Agreement provides otherwise, each Stock Unit shall vest with respect to 20% of the Shares subject to the Stock Unit upon completion of each year of Service on each of the first through fifth annual anniversaries of the vesting commencement date. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents shall be subject to the same conditions and restrictions as the Stock Units to which they attach and may not be paid until the applicable conditions and restrictions, including any performance conditions, are satisfied.

(f) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee at the time of the grant of the Stock Units, in its sole discretion. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when the vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred, in accordance with applicable law, to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 11.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

(h) Modification or Assumption of Stock Units. Within the limitations of the Plan, the Committee may modify or assume outstanding stock units or may accept the cancellation of outstanding stock units (including stock units granted by another issuer) in return for the grant of new Stock Units for the same or a different number of Shares and with the same or different vesting provisions. Notwithstanding the preceding sentence or anything to the contrary herein, the Committee may not modify an outstanding Stock Unit such that the modification shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Unit, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule.

(i) Assignment or Transfer of Stock Units. Except as provided in the applicable Stock Unit Agreement, and then only to the extent permitted by applicable law, Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 10(i) shall be void. However, this Section 10(i) shall not preclude a Participant from designating a beneficiary who will receive any outstanding vested Stock Units in the event of the Participant's death, nor shall it preclude a transfer of vested Stock Units by will or by the laws of descent and distribution.

SECTION 11. PROTECTION AGAINST DILUTION.

(a) Adjustments. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make appropriate adjustments to the following:

- (i) the number of Shares and the kind of shares or securities available for future Awards under Section 5;
 - (ii) the limits on Awards specified in Section 5;
 - (iii) the number of Shares and the kind of shares or securities covered by each outstanding Award; or
 - (iv) the Exercise Price under each outstanding SAR or Option.
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(b) Participant Rights. Except as provided in this Section 11, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class. If by reason of an adjustment pursuant to this Section 11 a Participant's Award covers additional or different shares of stock or securities, then such additional or different shares and the Award in respect thereof shall be subject to all of the terms, conditions and restrictions which were applicable to the Award and the Shares subject to the Award prior to such adjustment.

(c) Fractional Shares. Any adjustment of Shares pursuant to this Section 11 shall be rounded down to the nearest whole number of Shares. Under no circumstances shall the Company be required to authorize or issue fractional shares and no consideration shall be provided as a result of any fractional shares not being issued or authorized.

SECTION 12. EFFECT OF A CORPORATE TRANSACTION.

(a) Corporate Transaction. In the event that the Company is a party to a Corporate Transaction, outstanding Awards shall be subject to the applicable agreement of merger, reorganization, or sale of assets. Such agreement may provide, without limitation, for the assumption or substitution of outstanding Options, SARs, or Stock Units by the surviving corporation or its parent, for the assumption of outstanding Stock Grant Agreements by the surviving corporation or its parent, for the replacement of outstanding Options, SARs, and Stock Units with a cash incentive program of the surviving corporation which preserves the spread existing on the unvested portions of such outstanding Awards at the time of the transaction and provides for subsequent payout in accordance with the same vesting provisions applicable to those Awards, for accelerated vesting of outstanding Awards, or for the cancellation of outstanding Options, SARs, and Stock Units, with or without consideration, in all cases without the consent of the Participant.

(b) Acceleration. The Committee may determine, at the time of grant of an Award or thereafter, that such Award shall become fully vested as to all Shares subject to such Award in the event that a Corporate Transaction or a Change in Control occurs. Unless otherwise provided in the applicable Award agreement, in the event that a Corporate Transaction occurs and any outstanding Options, SARs or Stock Units are not assumed, substituted, or replaced with a cash incentive program pursuant to Section 12(a) or any outstanding Stock Grant Agreements are not assumed pursuant to Section 12(a), then such Awards shall fully vest and be fully exercisable immediately prior to such Corporate Transaction. Immediately following the consummation of a Corporate Transaction, all outstanding Options, SARs and Stock Units shall terminate and cease to be outstanding, except to the extent that they are assumed by the surviving corporation or its parent.

(c) Dissolution. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

SECTION 13. LIMITATIONS ON RIGHTS.

(a) No Entitlements. A Participant's rights, if any, in respect of or in connection with any Award is derived solely from the discretionary decision of the Company to permit the individual to participate in the Plan and to benefit from a discretionary Award. By accepting an Award under the Plan, a Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards. Any Award granted hereunder is not intended to be compensation of a continuing or recurring nature, or part of a Participant's normal or expected compensation, and in no way represents any portion of a Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and such terminated person shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(b) Shareholders' Rights. A Participant shall have no dividend rights, voting rights or other rights as a shareholder with respect to any Shares covered by his or her Award prior to the issuance of such Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company). No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such Shares are issued, except as expressly provided in Section 11.

(c) Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares or other securities under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares or other securities pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares or other securities, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 14. WITHHOLDING TAXES.

(a) General. A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with his or her Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) Share Withholding. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering or attesting to all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued based on the value of the actual trade or, if there is none, the Fair Market Value as of the previous day. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including, but not limited to, any restrictions required by rules of the SEC. The Committee may, in its discretion, also permit a Participant to satisfy withholding or income tax obligations related to an Award through Cashless Exercise or through a sale of Shares underlying the Award.

SECTION 15. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan shall become effective upon its approval by Company shareholders. The Plan shall terminate at the Company's 2021 Annual Meeting of Shareholders and may be terminated on any earlier date pursuant to this Section 15.

(b) Right to Amend or Terminate the Plan. The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not impair the rights or obligations of any Participant under any Award previously granted under the Plan without the Participant's consent, unless such modification is necessary or desirable to comply with any applicable law, regulation or rule. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's shareholders only to the extent such approval is otherwise required by applicable laws, regulations or rules.

CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: _____

Grant Date: _____

Type of Option: _____ Incentive Stock Option
 _____ Nonstatutory Stock Option

Grant Number: _____

Number of Option Shares: _____ shares

Exercise Price: \$ _____ per share

Vesting Commencement Date: _____

Expiration Date: _____

Exercise Schedule

The Option shall vest and become exercisable with respect to (i) twenty percent (20%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and (ii) the balance of the Option Shares in a series of forty-eight (48) successive equal monthly installments upon Optionee's completion of each additional month of Service over the forty-eight (48)-month period measured from the first annual anniversary of the Vesting Commencement Date. In no event shall the Option vest and become exercisable for any additional Option Shares after Optionee's cessation of Service.

Should Optionee request a reduction to his or her work commitment to less than thirty (30) hours per week, then the Committee shall have the right, to extend the period over which the Option shall thereafter vest and become exercisable for the Option Shares during the remainder of the Option term. The decision whether or not to approve Optionee's request for any reduced work commitment shall be at the sole discretion of the Company. In no event shall any extension of the Exercise Schedule for the Option Shares result in the extension of the Expiration Date of the Option.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

No Employment or Service Contract. Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

STOCK OPTION AGREEMENT

Recitals

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

NOW, THEREFORE, it is hereby agreed as follows:

1. Grant of Option. The Company hereby grants to Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

2. Option Term. This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5 or 6.

3. Non-Transferability. This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

4. Dates of Exercise. This Option shall vest and become exercisable for the Option Shares in one or more installments as specified in the Notice. As the Option becomes exercisable for such installments, those installments shall accumulate and the Option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the Option term under Paragraph 5 or 6. As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5 or 6 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in Service as provided in Paragraph 5(i) and the date three (3) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

5. Cessation of Service. The Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

(i) Should Optionee cease to remain in Service for any reason (other than death, Disability or Cause) while this Option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.

(ii) If Optionee dies while this Option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option. Such right shall lapse, and this Option shall cease to be outstanding, upon the earlier of (A) the expiration of the eighteen (18)- month period measured from the date of Optionee's death or (B) the Expiration Date.

(iii) Should Optionee cease Service by reason of Disability while this Option is outstanding, then Optionee shall have a period of eighteen (18) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.

(iv) Optionee's date of cessation of Service shall mean the date upon which Optionee ceases active performance of services for the Company following the provision of such notification of termination or resignation from Service and shall be determined solely by this Agreement and without reference to any other agreement, written or oral, including Optionee's contract of employment, and shall not otherwise include any period of notice of termination of employment, whether expressed or implied.

(v) During the limited period of post-Service exercisability, this Option may not be exercised in the aggregate for more than the number of vested Option Shares for which the Option is exercisable at the time of Optionee's cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this Option shall terminate and cease to be outstanding for any vested Option Shares for which the Option has not been exercised. However, this Option shall, immediately upon Optionee's cessation of Service for any reason, terminate and cease to be outstanding with respect to any Option Shares in which Optionee is not otherwise at that time vested or for which this Option is not otherwise at that time exercisable.

(vi) Should Optionee's Service be terminated for Cause or should Optionee otherwise engage in activities constituting Cause while this Option is outstanding, then this Option shall terminate immediately and cease to remain outstanding. In the event Optionee's Service with the Company is suspended pending an investigation of whether Optionee's Service will be terminated for Cause, all Optionee's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

6. Special Acceleration of Option

(a) This Option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Corporate Transaction, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. No such acceleration of this Option, however, shall occur if and to the extent: (i) this Option is, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) or (ii) this Option is replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such Shares) and provides for subsequent pay-out in accordance with the same Exercise Schedule set forth in the Notice. The determination of option comparability under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Option is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by the Option and the Exercise Price immediately after such Corporate Transaction, provided the aggregate Exercise Price shall remain the same.

(d) This Option, to the extent outstanding at the time of a Change in Control but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Change in Control, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. This Option shall remain so exercisable until the Expiration Date or sooner termination of the Option term.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. Adjustment in Option Shares. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. Shareholder Rights. The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

9. Manner of Exercising Option

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company;

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; and

(C) a promissory note payable to the Company, but only to the extent authorized by the Committee in accordance with Paragraph 13.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

(d) Notwithstanding any other provisions of the Plan, this Agreement or any other agreement to the contrary, if at the time this Option is exercised, Optionee is indebted to the Company (or any Parent or Subsidiary) for any reason, the following actions shall be taken, as deemed appropriate by the Committee:

(i) any Shares to be issued upon such exercise shall automatically be pledged against Optionee's outstanding indebtedness; and

(ii) if this Option is exercised in accordance with subparagraph 9(a)(i)(B) above, the after tax proceeds of the sale of Optionee's Shares shall automatically be applied to the outstanding balance of Optionee's indebtedness.

10. Compliance with Laws and Regulations.

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

11. Successors and Assigns. Except to the extent otherwise provided in Paragraphs 3 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

12. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

13. Financing. The Committee may, in its absolute discretion and without any obligation to do so, permit Optionee to pay the Exercise Price for the purchased Option Shares by delivering a full-recourse promissory note payable to the Company. The terms of any such promissory note (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Committee in its sole discretion.

14. Construction. The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

15. Governing Law. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

16. Excess Shares. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

17. Additional Terms Applicable to an Incentive Stock Options. In the event this Option is designated an Incentive Stock Option in the Notice, the following terms and conditions shall also apply to the Option:

(a) This Option shall cease to qualify for favorable tax treatment as an Incentive Stock Option if (and to the extent) this Option is exercised for one or more Option Shares: (A) more than three (3) months after the date Optionee ceases to be an Employee for any reason other than death or Disability or (B) more than twelve (12) months after the date Optionee ceases to be an Employee by reason of Disability.

(b) Even if this Option is designated as an Incentive Stock Option, if the Shares subject to this Option (and all other Incentive Stock Options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate Fair Market Value (determined for each Share as of the date of grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option in accordance all applicable laws, regulations and rules.

18. Leave of Absence. Unless otherwise determined by the Committee, the following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

(a) The Exercise Schedule in effect under the Notice shall be frozen as of the first day of the authorized leave, and this Option shall not become exercisable for any additional installments of the Option Shares during the period Optionee remains on such leave.

(b) If the Option is designated as an Incentive Stock Option in the Notice and if the leave of absence continues for more than ninety (90) days, then this Option shall automatically convert to a Nonstatutory Stock Option at the end of the three (3)-month period measured from the ninety-first (91st) day of such leave, unless the Optionee's right to return to active work is guaranteed by law or by a contract.

(c) In no event shall this Option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Service prior to the Expiration Date of the Option term.

19. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

20. Authorization to Release Necessary Personal Information.

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the fact and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Shares held and the details of all options or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing Optionee's participation in the Plan. Optionee understands that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the exercise of Options under the Plan or with whom Shares acquired upon exercise of this Option or cash from the sale of such shares may be deposited. Optionee acknowledges that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of Optionee's residence. Furthermore, Optionee acknowledges and understands that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein, by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from the Option, and Optionee's ability to participate in the Plan.

21. No Entitlement or Claims for Compensation.

(a) Optionee's rights, if any, in respect of or in connection with this Option or any other Award is derived solely from the discretionary decision of the Company to permit Optionee to participate in the Plan and to benefit from a discretionary Award. By accepting this Option, Optionee expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to Optionee. This Option is not intended to be compensation of a continuing or recurring nature, or part of Optionee's normal or expected compensation, and in no way represents any portion of a Optionee's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee a right to remain an Employee, Consultant or director of the Company, a Parent or a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of Optionee at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and Optionee shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Option or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) Optionee agrees that the Company may require Options granted hereunder be exercised with, and the Option Shares held by, a broker designated by the Company. In addition, Optionee agrees that his or her rights hereunder shall be subject to set-off by the Company for any valid debts the Optionee owes to the Company.

CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: _____

Grant Date: _____

Type of Option: U.S. Nonstatutory Stock Option

Grant Number: _____

Number of Option Shares: _____ shares

Exercise Price: \$ _____ per share

First Vest Date: _____

Expiration Date: _____

Exercise Schedule. So long as Optionee's Service continues, the Option shall vest and become exercisable with respect to (i) _____ percent (__ %) of the option shares, as set forth above (the "Option Shares") on the First Vest Date as set forth above and (ii) the balance of the Option Shares in _____ installments upon Optionee's completion of each additional _____ of Service over the _____ period measured from the _____ First Vest Date. In no event shall the Option vest and become exercisable for any additional Option Shares after Optionee's cessation of Service.

Should Optionee request a reduction to his or her work commitment to less than thirty (30) hours per week, then the Company shall have the right to extend the period over which the Option shall thereafter vest and become exercisable for the Option Shares during the remainder of the Option term to the extent permitted under local law. In no event shall any extension of the exercise schedule, as set forth above ("Exercise Schedule") for the Option Shares result in the extension of the expiration date, as set forth above, ("Expiration Date") of the Option.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement (the "Agreement") attached hereto.

No Employment or Service Contract. Nothing in this Notice or in the attached Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent, Subsidiary or Affiliate employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause to the extent permissible under local law.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Agreement or the Plan.

STOCK OPTION AGREEMENT

Recitals

- A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board and Consultants.
- B. Optionee is to render valuable services to the Company (or a Parent, Subsidiary or Affiliate), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.
- C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

NOW, THEREFORE, it is hereby agreed as follows:

- 1. Grant of Option.** The Company hereby grants to Optionee, as of the grant date, as set forth in the Notice, (the "Grant Date") an option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.
- 2. Option Term.** This Option shall have a maximum term of _____ years [not to exceed ten (10) years] measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5 or 6.
- 3. Non-Transferability.** This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.
- 4. Dates of Exercise.** This Option shall vest and become exercisable for the Option Shares in one or more installments as specified in the Notice. As the Option becomes exercisable for such installments, those installments shall accumulate and the Option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the Option term under Paragraph 5 or 6. As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5 or 6 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in Service as provided in Paragraph 5(i) and the date three (3) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4:00 p.m. Eastern Daylight Time on Friday, July 1.
- 5. Cessation of Service.** The Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:
 - (i) Should Optionee cease to remain in Service for any reason (other than death, Disability or Cause and whether or not in breach of local labor laws) while this Option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.
 - (ii) If Optionee dies while this Option is outstanding, then the Optionee's designated beneficiary or, if no beneficiary was designated or properly designated or, if no designated beneficiary survives the Optionee, the Optionee's estate (to the extent reasonably determinable) or other individual or entity entitled to receive the Option under applicable local law shall have the right to exercise this Option. Such right shall lapse, and this Option shall cease to be outstanding, upon the earlier of (A) the expiration of the eighteen (18) month period measured from the date of Optionee's death or (B) the Expiration Date. Optionee may only make a beneficiary designation with respect to this Option if the Company has approved a process or procedure for such beneficiary designation for the local jurisdiction within which Optionee performs services for the Company or a Parent, Subsidiary or Affiliate. If no such beneficiary designation process or procedure has been approved by the Company, then, in the event of Optionee's death, this Option may only be exercised by the Optionee's estate (to the extent reasonably determinable) or other individual or entity entitled to receive the Option under applicable local law.
 - (iii) Should Optionee cease Service by reason of Disability while this Option is outstanding, then Optionee shall have a period of eighteen (18) months (commencing with the date of such cessation of Service) during which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date.
 - (iv) During the limited period of post-Service exercisability, this Option may not be exercised in the aggregate for more than the number of vested Option Shares for which the Option is exercisable at the date the Optionee ceases to actively provide Service (not extended by any notice period mandated under local law). Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this Option shall terminate and cease to be outstanding for any vested Option Shares for which the Option has not been exercised. However, this Option shall, immediately as of the date the Optionee ceases to actively provide Service for any reason, terminate and cease to be outstanding with respect to any Option Shares in which Optionee is not otherwise at that time vested or for which this Option is not otherwise at that time exercisable.

(v) Should Optionee's Service be terminated for Cause or should Optionee otherwise engage in activities constituting Cause while this Option is outstanding, then this Option shall terminate immediately and cease to remain outstanding. In the event Optionee's Service is suspended pending an investigation of whether Optionee's Service will be terminated for Cause, all Optionee's rights under the Option, including the right to exercise the Option, shall be suspended during the investigation period.

(vi) For purposes of this Paragraph 5, in the event of Optionee's cessation of Service, Optionee's right to receive additional options or to vest in the Option will end as of the date the Optionee is no longer actively providing Service and will not be extended by any notice period mandated under local law (e.g ., active Service would not include any period of "garden leave" or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when an Optionee is no longer actively providing Service for purposes of this Option.

6. Special Acceleration of Option .

(a) This Option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Corporate Transaction, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. No such acceleration of this Option, however, shall occur if and to the extent: (i) this Option is, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof) or (ii) this Option is replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such Shares) and provides for subsequent pay-out in accordance with the same Exercise Schedule set forth in the Notice. The determination of option comparability under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Option is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by the Option and the Exercise Price immediately after such Corporate Transaction, provided the aggregate Exercise Price shall remain the same.

(d) This Option, to the extent outstanding at the time of a Change in Control but not otherwise fully vested and exercisable, shall automatically accelerate so that this Option shall, immediately prior to the effective date of the Change in Control, become vested and exercisable for all of the Option Shares at the time subject to this Option and may be exercised for any or all of those Option Shares as fully-vested Shares. This Option shall remain so exercisable until the Expiration Date or sooner termination of the Option term.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. Adjustment in Option Shares . In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. Shareholder Rights . The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

9. Manner of Exercising Option .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's (or a Parent's, Subsidiary's or Affiliate's) withholding obligations (including income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax items

related to Optionee's participation in the Plan and legally applicable to Optionee ("Tax-Related Items")) and (II) to the Company to deliver the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or a Parent, Subsidiary or Affiliate employing or retaining Optionee) for the satisfaction of all withholding or other obligations related to Tax-Related Items applicable to the Option grant, vesting, exercise or the sale of Shares, as applicable.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares, (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

(d) Notwithstanding any other provisions of the Plan, this Agreement or any other agreement to the contrary, if at the time this Option is exercised, Optionee is indebted to the Company (or any Parent, Subsidiary or Affiliate) for any reason, the following actions shall be taken, as deemed appropriate by the Committee:

(i) any Shares to be issued upon such exercise shall automatically be pledged against Optionee's outstanding indebtedness; and

(ii) if this Option is exercised in accordance with subparagraph 9(a)(i)(B) above, the after tax proceeds of the sale of Optionee's Shares shall automatically be applied to the outstanding balance of Optionee's indebtedness.

10. Responsibility for Taxes.

(a) Optionee authorizes the Company and/or the Optionee's employer (the "Employer") or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding all applicable Tax-Related Items from Optionee's wages or other cash compensation paid to Optionee by the Company and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon exercise of the Option either through a voluntary sale (specifically including where this Option is exercised in accordance with subparagraph 9(a)(i)(B) above) or through a mandatory sale arranged by the Company (on Optionee's behalf pursuant to this authorization); or (3) withholding of Shares that would otherwise be issued upon exercise of the Option. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance. Finally, Optionee must pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of Optionee's participation in the Plan or Optionee's purchase of Shares that cannot be satisfied by the means previously described. The Company may refuse to honor the exercise and refuse to issue or deliver the Shares or the proceeds of the sale of the Shares if Optionee fails to comply with Optionee's obligations in connection with the Tax-Related Items as described in this Paragraph.

(b) Regardless of any action the Company or the Employer takes with respect to any or all Tax-Related Items, Optionee acknowledges that the ultimate liability for all Tax-Related Items is and remains Optionee's responsibility and may exceed the amount actually withheld by the Company or the Employer. Optionee further acknowledges that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Optionee's liability for Tax-Related Items or achieve any particular tax result. Further, if Optionee becomes subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, Optionee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

11. Compliance with Laws and Regulations.

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance and all applicable foreign laws.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained.

12. Successors and Assigns. Except to the extent otherwise provided in Paragraphs 3, 5 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

13. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

14. Construction. The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

15. Governing Law and Forum. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. Excess Shares. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

17. Leave of Absence. Unless otherwise determined by the Committee, to the extent permitted by local law, the following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

(a) The Exercise Schedule in effect under the Notice shall be frozen as of the first day of the authorized leave, and this Option shall not become exercisable for any additional installments of the Option Shares during the period Optionee remains on such leave.

(b) In no event shall this Option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Service prior to the Expiration Date of the Option term.

18. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

19. Authorization to Release and Transfer Necessary Personal Information.

(a) Optionee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Optionee's personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing Optionee's participation in the Plan.

(b) Optionee understands that the Company and the Employer may hold certain personal information about Optionee, including, but not limited to, Optionee's name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing the Optionee's participation in the Plan. Optionee understands that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in Optionee's country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than Optionee's country. Optionee understands that Optionee may request a list with the names and addresses of any potential recipients of the Data by contacting Optionee's local human resources representative. Optionee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing Optionee's participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of the Option under the Plan or with whom Shares acquired pursuant to these Options or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.

(c) Optionee understands that Data will be held only as long as is necessary to implement, administer and manage Optionee's participation in the Plan. Optionee understands that Optionee may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to vest in or realize benefits from the Options, and Optionee's ability to participate in the Plan. For more

information on the consequences of Optionee's refusal to consent or withdrawal of consent, Optionee understands that Optionee may contact Optionee's local human resources representative.

20. No Entitlement or Claims for Compensation

(a) Optionee's rights, if any, in respect of or in connection with this Option or any other Award are derived solely from the discretionary decision of the Company to permit Optionee to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting this Option, Optionee expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to Optionee or benefits in lieu of Options or any other Awards even if Options have been granted repeatedly in the past. All decisions with respect to future Option grants, if any, will be at the sole discretion of the Committee.

(b) This Option and the Shares subject to the Option are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of Optionee's normal or expected compensation, and in no way represent any portion of Optionee's salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Option and the Shares subject to the Option are an extraordinary item that do not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which are outside the scope of Optionee's written employment agreement (if any).

(c) Optionee acknowledges that he or she is voluntarily participating in the Plan.

(d) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate the Service of Optionee at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any).

(e) The grant of the Option and Optionee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty. If the underlying Shares do not increase in value, the Option will have no value. If Optionee exercises the Option and obtains Shares, the value of the Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price. Optionee also understands that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between the Employer's local currency and the United States Dollar that may affect the value of this Option.

(g) In consideration of the grant of the Option, no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of Optionee's Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and Optionee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, Optionee shall be deemed irrevocably to have waived Optionee's entitlement to pursue such claim.

(h) Optionee agrees that the Company may require Options granted hereunder be exercised with, and the Option Shares held by, a broker designated by the Company.

(i) Optionee agrees that his or her rights hereunder (if any) shall be subject to set-off by the Company for any valid debts the Optionee owes to the Company.

(j) The Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

21. No Advice Regarding Grant. The Company and the Employer have not provided any tax, legal or financial advice, nor has the Company or the Employer made any recommendations regarding Optionee's participation in the Plan, or Optionee's acquisition or sale of the underlying Shares. Optionee is hereby advised to consult with Optionee's own personal tax, legal and financial advisors regarding Optionee's participation in the Plan before taking any action related to the Plan.

22. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Optionee's current or future participation in the Plan by electronic means or to request Optionee's consent to participate in the Plan by electronic means. Optionee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

23. Language. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

24. Appendix. Notwithstanding any provisions in this Agreement, the Option shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for Optionee's country of residence. Moreover, if Optionee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Optionee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

25. Imposition of Other Requirements. The Company reserves the right to impose other requirements on Optionee's participation in the Plan, on the Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. Optionee agrees to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, Optionee acknowledges that the laws of the country in which Optionee is working at the time of grant, vesting and exercise of the Option or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject Optionee to additional procedural or regulatory requirements that Optionee is and will be solely responsible for and must fulfill.

CISCO SYSTEMS, INC.
STOCK GRANT AGREEMENT

This Stock Grant Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Grant Award are as follows:

Employee ID: _____

Grant Date: _____

Grant Number: _____

Restricted Shares: _____

First Vest Date: _____, 20__ (the first annual anniversary of the vesting commencement date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. Restricted Shares. Pursuant to the Plan, the Company hereby transfers to you, and you hereby accept from the Company, a Stock Grant Award consisting of the Restricted Shares, on the terms and conditions set forth herein and in the Plan.

2. Vesting of Restricted Shares. So long as your Service continues, the Restricted Shares shall vest in accordance with the following schedule: _____ percent (__%) of the total number of Restricted Shares issued pursuant to this Agreement shall vest on the First Vest Date and on each annual anniversary thereafter, unless otherwise provided by the Plan or Section 3 below. In the event of the termination of your Service for any reason, all unvested Restricted Shares shall be immediately forfeited without consideration. For purposes of facilitating the enforcement of the provisions of this Section 2, the Company may issue stop-transfer instructions on the Restricted Shares to the Company's transfer agent, or otherwise hold the Restricted Shares in escrow, until the Restricted Shares have vested and you have satisfied all applicable obligations with respect to the Restricted Shares, including any applicable tax withholding obligations set forth in Section 5 below. Any new, substituted or additional securities or other property which is issued or distributed with respect to the unvested Restricted Shares shall be subject to the same terms and conditions as are applicable to the unvested Restricted Shares under this Agreement and the Plan.

3. Special Acceleration.

(a) To the extent the Restricted Shares are outstanding at the time of a Corporate Transaction, but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Corporate Transaction and shall become vested in full at that time. No such acceleration, however, shall occur if and to the extent: (i) this Stock Grant Agreement is, in connection with the Corporate Transaction, assumed by the successor corporation (or parent thereof), or (ii) the Restricted Shares are replaced with a cash incentive program of the successor corporation which preserves the Fair Market Value of the Restricted Shares at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the vesting schedule set forth in Section 2 above.

(b) Immediately following the effective date of the Corporate Transaction, this Stock Grant Agreement shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Stock Grant Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of shares and the kind of shares or securities covered by this Stock Grant Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Shares are outstanding at the time of a Change in Control but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time.

(e) This Stock Grant Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

4. Restriction on Election to Recognize Income in the Year of Grant. Under Section 83 of the Code, the Fair Market Value of the Restricted Shares on the date the Restricted Shares vest will be taxable as ordinary income at that time. You understand, acknowledge and agree that, as a

condition to the grant of this Award, you may not elect to be taxed at the time the Restricted Shares are acquired by filing an election under Section 83(b) of the Code with the Internal Revenue Service.

5. Withholding Taxes. You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable withholding tax obligations that arise in connection with the Restricted Shares which, at the sole discretion of the Company, may include (i) having the Company withhold Shares from the Restricted Shares held in escrow, or (ii) any other arrangement approved by the Company, in any case, equal in value to the amount necessary to satisfy any such withholding tax obligation. Such Shares shall be valued based on the Fair Market Value as of the day prior to the date that the amount of tax to be withheld is to be determined under applicable law. The Company shall not be required to release the Restricted Shares from the stop-transfer instructions or escrow unless and until such obligations are satisfied.

6. Tax Advice. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences.

YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY STOCK GRANT AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. Non-Transferability of Restricted Shares. Restricted Shares which have not vested pursuant to Section 2 above shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by the operation of law. However, this Section 7 shall not preclude you from designating a beneficiary who will receive any vested Restricted Shares in the event of the your death, nor shall it preclude a transfer of vested Restricted Shares by will or by the laws of descent and distribution.

8. Restriction on Transfer. Regardless of whether the transfer or issuance of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. Stock Certificate Restrictive Legends. Stock certificates evidencing the Restricted Shares may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. Representations, Warranties, Covenants, and Acknowledgments. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Restricted Shares may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. Voting and Other Rights. Subject to the terms of this Agreement, you shall have all the rights and privileges of a shareholder of the Company while the Restricted Shares are subject to stop-transfer instructions, or otherwise held in escrow, including the right to vote and to receive dividends (if any).

12. Authorization to Release Necessary Personal Information.

(a) You hereby authorize and direct your employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your employment, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of this Stock Grant Award under the Plan or with whom Shares acquired pursuant to this Stock Grant Award or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from this Stock Grant Award, and your ability to participate in the Plan.

13. No Entitlement or Claims for Compensation

(a) Your rights, if any, in respect of or in connection with this Stock Grant Award or any other Award is derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting this Stock Grant Award, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. This Stock Grant Award is not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Stock Grant Award or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Stock Grant Award or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that the Company may require that Restricted Shares be held by a broker designated by the Company. In addition, you agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. Binding Effect. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

CISCO SYSTEMS, INC.
PERFORMANCE-BASED STOCK UNIT AGREEMENT

This Performance-Based Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: ____

Grant Date: ____

Grant Number: ____

Target Amount of
Performance-Based Stock Units: ____

Vest Date: ____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Performance-Based Stock Units**. Pursuant to the Plan, the Company hereby grants to you and you hereby accept from the Company, Performance-Based Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan. The Target Amount of Performance-Based Stock Units stated above reflects the target number of Performance-Based Stock Units (the "Target Amount"). The number of Performance-Based Stock Units ultimately paid out to you will range from ____% to ____% of the Target Amount as determined based upon the Company's performance during the performance period against the performance goals as set forth in Exhibit A.

2. **Vesting of Performance-Based Stock Units**. So long as your Service continues and subject to, and to the extent of, the satisfaction of the performance goals as set forth in Exhibit A, the Performance-Based Stock Units shall vest in accordance with the following schedule: _____ (____%) of the total number of Performance-Based Stock Units earned, if any, pursuant to the satisfaction of the performance goals in Exhibit A shall vest on the Vest Date, unless otherwise provided by the Plan or Sections 3(b) or 4 below. If you take a leave of absence, the Company may, at its discretion and to the extent permitted under applicable local law, either suspend vesting during the period of leave or pro-rate the Performance-Based Stock Units, notwithstanding the Company's Vesting Policy for Leaves of Absence.

3. **Termination of Service**.

(a) Except as otherwise provided in Section 3(b) below or Section 4, in the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Performance-Based Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest i

n the Performance-Based Stock Units will terminate effective as of the date that you are no longer actively providing Service (or earlier upon your “Separation from Service” within the meaning of Code Section 409A) and will not be extended by any notice period mandated under local law (*e.g.* , active Service would not include a period of “garden leave” or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Performance-Based Stock Units.

(b) In the event that you resign or your Service is terminated for any reason other than Cause on or after the date that (x) you have attained at least _____ (___) years of age and (y) your age plus your years of Service is at least equal to _____ (___), and so long as such resignation or the termination of your Service occurs no earlier than the _____ anniversary of the Grant Date (the satisfaction of the aforementioned conditions is referred to herein as “Retirement”), all unvested Performance-Based Stock Units may be earned pursuant to the satisfaction of the performance goals in Exhibit A, and shall vest in accordance with the vesting schedule set forth in Section 2 above, determined as if your Service had continued after your resignation or termination of Service, and shall be settled in accordance with Section 5(a); provided that any unsettled or unvested Performance-Based Stock Units shall be forfeited without consideration immediately upon the breach of any of the following conditions:

(i) Unless prohibited by applicable law, you shall render, as an independent advisor or consultant and not as an Employee, such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) as shall reasonably be requested by the Company (or any Parent, Subsidiary or Affiliate), and such services shall not be terminated for Cause (for purposes of clarity, any request to provide such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) shall not be considered a continuation of “Service” unless the Company specifically provides that the continuation of services is a continuation of “Service” for purposes of this Section 3(b)).

(ii) For a period of ____ (___) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not directly or indirectly, individually or on behalf of other persons or entities, intentionally solicit or induce (a) any employee of the Company (or any Parent, Subsidiary or Affiliate) to leave the employee’s employment in order to accept employment with another person or entity or (b) any customer of the Company (or any Parent, Subsidiary or Affiliate) with whom you have worked in your capacity as an Employee prior to your termination of Service whose identity and/or any related information constitutes protected trade secrets (with such customers determined as of the date of the termination of your Service, to retain or use any other person or entity for the purpose of rendering services in competition with the Company (or any Parent, Subsidiary or Affiliate) or to purchase products from any business which, in the opinion of the Company (or any Parent, Subsidiary or Affiliate), competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), in either case, unless these restrictions are prohibited (whether in whole or in part) by applicable law.

(iii) For a period of ____ (___) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not render services for any organization or engage directly or indirectly in any business which, in the opinion of the Company, competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), unless this restriction is prohibited by applicable law.

(iv) You shall not, without prior written authorization from the Company, use or disclose any confidential information or trade secrets concerning the Company (or any Parent, Subsidiary or Affiliate), in each case as determined by the Committee, and the Committee’s determination shall be conclusive and binding.

(c) Notwithstanding any provisions to the contrary in this Agreement, in the event of the termination of your Service for Cause or in the event of the termination for Cause of any independent advisory or consulting services you may be providing as described in Section 3(b)(i), any unsettled or unvested Performance-Based Stock Units shall terminate and be forfeited immediately without consideration.

4. **Special Acceleration**.

(a) To the extent the Performance-Based Stock Units are outstanding at the time of a Corporate Transaction, such Performance-Based Stock Units shall automatically become vested in full at the Target Amount immediately prior to the effective date of the Corporate Transaction and settled in accordance with Section 5 below. No such accelerated vesting, however, shall occur if and to the extent: (i) these Performance-Based Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable performance-based stock units of the successor corporation (or parent thereof), in each case, having a minimum payout equal to the Target Amount and preserving the settlement provisions set forth in Section 5 below or (ii) these Performance-Based Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and, at a minimum, preserves the fair market value of the Performance-Based Stock Units at the time of the Corporate Transaction (based on the Target Amount) and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of performance-based stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the settlement of Performance-Based Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Performance-Based Stock Units are outstanding at the time of a Change in Control, such Performance-Based Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at the Target Amount at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Performance-Based Stock Units**.

(a) **General Settlement Terms** . The Performance-Based Stock Units, to the extent earned and vested hereunder (including, without limitation by reason of Retirement), shall be automatically settled in Shares on the Vest Date (which constitutes a fixed payment date for purposes of Code Section 409A) or, if earlier, upon the earliest to occur of the settlement events set forth below or in the Company's Vesting Acceleration Policy for Death and Terminal Illness; it being understood that nothing herein shall limit the Company's ability to amend or terminate such policy in its sole discretion and without your consent.

(b) **Corporate Transaction** . If, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this Performance-Based Stock Unit award and this Performance-Based Stock Unit award is not assumed or replaced as described in Section 4(a) in connection with a Corporate Transaction, then the Performance-Based Stock Units shall be automatically settled in Shares immediately prior to the effective date of the Corporate Transaction instead of on the Vest Date.

(c) **Change in Control** . In the event a Change in Control is consummated prior to the Vest Date and such Change in Control is a permissible distribution event under Code Section 409A, the Performance-Based Stock

Units shall be automatically settled in Shares immediately prior to the effective date of the Change in Control. In the event such Change in Control is not a permissible distribution event under Code Section 409A, the Performance-Based Stock Units shall be automatically settled in Shares upon the earlier of (i) the Vest Date or (ii) your Separation from Service that occurs immediately prior to or at any time after such Change in Control. Notwithstanding the foregoing, if, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this Performance-Based Stock Unit award, then such settlement shall in all cases occur immediately prior the effective date of the Change in Control.

(d) The Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law.

(e) Notwithstanding anything in this Section 5 or in this Agreement, to the extent your Performance-Based Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

(f) Prior to the time that the Performance-Based Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Performance-Based Stock Units represent an unfunded and unsecured obligation of the Company.

6. **Taxes**.

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Performance-Based Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance-Based Stock Units, including the grant, vesting or settlement of the Performance-Based Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Performance-Based Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account of any obligations of the Company and/or the Employer that arise in connection with the Performance-Based Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Performance-Based Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Performance-Based Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Performance-Based Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial a

ccounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. **Tax and Legal Advice**. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY PERFORMANCE-BASED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Performance-Based Stock Units**. Performance-Based Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Performance-Based Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions**. Stock certificates evidencing the Shares issued pursuant to the Performance-Based Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Performance-Based Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights**. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Performance-Based Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Performance-Based Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information**.

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Performance-Based Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Performance-Based Stock Units under the Plan or with whom Shares acquired pursuant to these Performance-Based Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Performance-Based Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. No Entitlement or Claims for Compensation

(a) Your rights, if any, in respect of or in connection with these Performance-Based Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Performance-Based Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Performance-Based Stock Units to you or benefits in lieu of Restricted Stock Units, even if Performance-Based Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Performance-Based Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Performance-Based Stock Units and the Shares subject to the Performance-Based Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of

the Performance-Based Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Performance-Based Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Performance-Based Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Performance-Based Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Performance-Based Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Performance-Based Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) or from the Company's determination that performance goals have not been satisfied in whole or in part and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Performance-Based Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Performance-Based Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix**. Notwithstanding any provisions in this Agreement, the Performance-Based Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Performance-Based Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Performance-Based Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Performance-Based Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Performance-Based Stock Units in the manner instructed by the Company, your Performance-Based Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

CISCO SYSTEMS, INC.
PERFORMANCE-BASED STOCK UNIT AGREEMENT

This Performance-Based Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: _____

Grant Date: _____

Grant Number: _____

Target Amount of
Performance-Based Stock
Units: _____

Vest Date: _____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Performance-Based Stock Units.** Pursuant to the Plan, the Company hereby grants to you, [subject to the approval by the stockholders of the Company of the amendment and restatement of the Plan,] and you hereby accept from the Company, Performance-Based Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan. The Target Amount of Performance-Based Stock Units stated above reflects the target number of Performance-Based Stock Units (the "Target Amount"). The number of Performance-Based Stock Units ultimately paid out to you will range from _____% to _____% of the Target Amount as determined based upon the Company's performance during the performance period against the performance goals as set forth in Exhibit A.

2. **Vesting of Performance-Based Stock Units.** So long as your Service continues and subject to, and to the extent of, the satisfaction of the performance goals as set forth in Exhibit A, the Performance-Based Stock Units shall vest in accordance with the following schedule: _____(_____%) of the total number of Performance-Based Stock Units earned, if any, pursuant to the satisfaction of the performance goals in Exhibit A shall vest on the Vest Date, unless otherwise provided by the Plan or Sections 3(b) or 4 below. If you take a leave of absence, the Company may, at its discretion and to the extent permitted under applicable local law, either suspend vesting during the period of leave or pro-rate the Performance-Based Stock Units, notwithstanding the Company's Vesting Policy for Leaves of Absence. Prior to the time that the Performance-Based Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Performance-Based Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service.**

(a) Except as otherwise provided in Section 3(b) below or Section 4, in the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Performance-Based Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Performance-Based Stock Units will terminate effective as of the date that you are no longer actively providing Service (or earlier upon your "Separation from Service" within the meaning of Code Section 409A) and will not be extended by any notice period mandated under local law (e.g., active Service would not include a period of "garden leave" or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Performance-Based Stock Units.

(b) In the event that you resign or your Service is terminated for any reason other than Cause on or after the date that (x) you have attained at least _____(_____) years of age and (y) your age plus your years of Service is at least equal to _____(_____), and so long as such resignation or the termination of your Service occurs no earlier than the _____anniversary of the Grant Date (the satisfaction of the aforementioned conditions is referred to herein as "Retirement" ¹), all unvested Performance-Based Stock Units may be earned pursuant to the satisfaction of the performance goals in Exhibit A,

and shall vest in accordance with the vesting schedule set forth in Section 2 above, determined as if your Service had continued after your resignation or termination of Service, and shall be settled in accordance with Section 5(a); provided that any unsettled or unvested Performance-Based Stock Units shall be forfeited without consideration immediately upon the breach of any of the following conditions:

(i) Unless prohibited by applicable law, you shall render, as an independent advisor or consultant and not as an Employee, such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) as shall reasonably be requested by the Company (or any Parent, Subsidiary or Affiliate), and such services shall not be terminated for Cause (for purposes of clarity, any request to provide such advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate) shall not be considered a continuation of "Service" unless the Company specifically provides that the continuation of services is a continuation of "Service" for purposes of this Section 3(b)).

(ii) For a period of _____(____) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not directly or indirectly, individually or on behalf of other persons or entities, intentionally solicit or induce (a) any employee of the Company (or any Parent, Subsidiary or Affiliate) to leave the employee's employment in order to accept employment with another person or entity or (b) any customer of the Company (or any Parent, Subsidiary or Affiliate) with whom you have worked in your capacity as an Employee prior to your termination of Service whose identity and/or any related information constitutes protected trade secrets (with such customers determined as of the date of the termination of your Service, to retain or use any other person or entity for the purpose of rendering services in competition with the Company (or any Parent, Subsidiary or Affiliate) or to purchase products from any business which, in the opinion of the Company (or any Parent, Subsidiary or Affiliate), competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), in either case, unless these restrictions are prohibited (whether in whole or in part) by applicable law.

(iii) For a period of _____(____) beginning on the date of your termination of Service or during any period in which you provide independent advisory or consulting services to the Company (or any Parent, Subsidiary or Affiliate), you shall not render services for any organization or engage directly or indirectly in any business which, in the opinion of the Company, competes with or is in conflict with the interests of the Company (or any Parent, Subsidiary or Affiliate), unless this restriction is prohibited by applicable law.

(iv) You shall not, without prior written authorization from the Company, use or disclose any confidential information or trade secrets concerning the Company (or any Parent, Subsidiary or Affiliate), in each case as determined by the Committee, and the Committee's determination shall be conclusive and binding.

(c) Notwithstanding any provisions to the contrary in this Agreement, in the event of the termination of your Service for Cause or in the event of the termination for Cause of any independent advisory or consulting services you may be providing as described in Section 3(b)(i), any unsettled or unvested Performance-Based Stock Units shall terminate and be forfeited immediately without consideration.

¹ If you are subject to the employment protections of a country within the European Economic Area because you reside in such country or are otherwise subject thereto, "Retirement" shall mean your years of Service is at least equal to _____ (____), regardless of your age, and the provisions concerning Retirement shall apply to you so long as the termination of your Service occurs no earlier than the one-year anniversary of the Grant Date. In all cases, years of Service shall be determined based on the date you originally provided Service. If you previously terminated Service, but subsequently returned to Service prior to the Grant Date, you will receive credit for your prior Service.

4. Special Acceleration

(a) To the extent the Performance-Based Stock Units are outstanding at the time of a Corporate Transaction, such Performance-Based Stock Units shall automatically become vested in full at the Target Amount immediately prior to the effective date of the Corporate Transaction and settled in accordance with Section 5 below. No such accelerated vesting, however, shall occur if and to the extent: (i) these Performance-Based Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable performance-based stock units of the successor corporation (or parent thereof), in each case, having a minimum payout equal to the Target Amount and preserving the settlement provisions set forth in Section 5 below or (ii) these Performance-Based Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and, at a minimum, preserves the fair market value of the Performance-Based Stock Units at the time of the Corporate Transaction (based on the Target Amount) and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of performance-based stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the settlement of Performance-Based Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Performance-Based Stock Units are outstanding at the time of a Change in Control, such Performance-Based Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at the Target Amount at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. Settlement of Performance-Based Stock Units

(a) **General Settlement Terms** . The Performance-Based Stock Units, to the extent earned and vested hereunder (including, without limitation by reason of Retirement), shall be automatically settled in Shares on the Vest Date (which constitutes a fixed payment date for purposes of Code Section 409A) or, if earlier, upon the earliest to occur of the settlement events set forth below or in the Company's Vesting Acceleration Policy for Death and Terminal Illness; it being understood that nothing herein shall limit the Company's ability to amend or terminate such policy in its sole discretion and without your consent.

(b) **Corporate Transaction** . If, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this Performance-Based Stock Unit award and this Performance-Based Stock Unit award is not assumed or replaced as described in Section 4(a) in connection with a Corporate Transaction, then the Performance-Based Stock Units shall be automatically settled in Shares immediately prior to the effective date of the Corporate Transaction instead of on the Vest Date.

(c) **Change in Control** . In the event a Change in Control is consummated prior to the Vest Date and such Change in Control is a permissible distribution event under Code Section 409A, the Performance-Based Stock Units shall be automatically settled in Shares immediately prior to the effective date of the Change in Control. In the event such Change in Control is not a permissible distribution event under Code Section 409A, the Performance-Based Stock Units shall be automatically settled in Shares upon the earlier of (i) the Vest Date or (ii) your Separation from Service that occurs immediately prior to or at any time after such Change in Control. Notwithstanding the foregoing, if, as of the Grant Date, you have not satisfied and it is not possible for you to satisfy the age and Service Retirement conditions with respect to this Performance-Based Stock Unit award, then such settlement shall in all cases occur immediately prior to the effective date of the Change in Control.

(d) The Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law.

(e) Notwithstanding anything in this Section 5 or in this Agreement, to the extent your Performance-Based Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

6. Taxes

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Performance-Based Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance-Based Stock Units, including the grant, vesting or settlement of the Performance-Based Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such

Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Performance-Based Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Performance-Based Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Performance-Based Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Performance-Based Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Performance-Based Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. Tax and Legal Advice. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY PERFORMANCE-BASED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. Non-Transferability of Performance-Based Stock Units. Performance-Based Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. Restriction on Transfer. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Performance-Based Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. Restrictive Legends and Stop-Transfer Instructions. Stock certificates evidencing the Shares issued pursuant to the Performance-Based Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. Representations, Warranties, Covenants, and Acknowledgments. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Performance-Based Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. Voting and Other Rights. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Performance-Based Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Performance-Based Stock Units.

13. Authorization to Release and Transfer Necessary Personal Information.

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Performance-Based Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Performance-Based Stock Units under the Plan or with whom Shares acquired pursuant to these Performance-Based Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Performance-Based Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. No Entitlement or Claims for Compensation .

(a) Your rights, if any, in respect of or in connection with these Performance-Based Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Performance-Based Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Performance-Based Stock Units to you or benefits in lieu of Restricted Stock Units, even if Performance-Based Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Performance-Based Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Performance-Based Stock Units and the Shares subject to the Performance-Based Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Performance-Based Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Performance-Based Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Performance-Based Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Performance-Based Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the

Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Performance-Based Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Performance-Based Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) or from the Company's determination that performance goals have not been satisfied in whole or in part and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Performance-Based Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Performance-Based Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix**. Notwithstanding any provisions in this Agreement, the Performance-Based Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Performance-Based Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Performance-Based Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Performance-Based Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Performance-Based Stock Units in the manner instructed by the Company, your Performance-Based Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: ____

Grant Date: ____

Grant Number: ____

Restricted Stock Units: ____

First Vest Date: ____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: _____ percent (____%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each ____ anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under the employment laws in the jurisdiction where you are providing Service or under the terms of your employment or service agreement, if any.

3. **Termination of Service**. In the event of the termination of your Service for any reason (whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where you are employed or providing Service, or the terms of your employment or service agreement, if any), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer providing Service, and the Company shall have the exclusive discretion to determine when you are no longer providing Service for purposes of the Restricted Stock Units.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units**. To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable Tax-Related Items, as described and defined in Section 6 below, and such issuance otherwise complies with all applicable laws. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A (“Separation from Service”) and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than six years after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company’s first business day following the six-month anniversary of your Separation from Service. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

6. **Taxes**.

(a) Regardless of any action the Company or your employer (the “Employer”) takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares, and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account of any obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding Shares, for tax p

urposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. You agree to provide the Company and/or its stock plan broker/administrator with the information necessary to manage your Tax-Related Item withholding and acknowledge that should you fail to provide such information on a timely basis, the Company and/or its stock plan broker/administrator may be obligated to withhold amounts from you and it may be necessary for you to seek a refund directly from the tax authorities. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance. If the Company does not satisfy the obligation for Tax-Related Items by the withholding of Shares and instead withholds proceeds from the sale of Shares acquired upon settlement of the Restricted Stock Units, the Company may withhold or account for Tax-Related Items by considering maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash to the extent that any over-withheld amount has not otherwise been remitted to the applicable tax authority and will have no entitlement to the Common Stock equivalent.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. **Tax and Legal Advice**. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, the Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND THE EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR THE EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law, including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting, Dividend and Other Rights**. Subject to the terms of this Agreement and except as set forth below, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled in Shares. To the extent you have elected to defer settlement of the Restricted Stock Units with a First Vest Date on or after September 11, 2016, dividend equivalents shall only accrue after the vesting of the Restricted Stock Units and

will be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach as set forth in the Plan or this Agreement and will be settled in additional Shares upon the settlement of the Restricted Stock Units as set forth in Section 5 above.

13. Authorization to Release and Transfer Necessary Personal Information

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that the Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you Restricted Stock Units or other equity awards, or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to vest in or realize benefits from these Restricted Stock Units and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. No Entitlement or Claims for Compensation

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary

or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment or service agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason.

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or service relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that none of the Company, the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between the Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) No claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where you are employed or providing Service, or the terms of your employment or service agreement, if any) and, in consideration of the grant of the Award to which you are not otherwise entitled, you irrevocably agree never to institute any claim against the Employer, the Company or its Parent, Subsidiaries or Affiliates, waive your ability, if any, to bring any such claim, and release the Company and its Parent, Subsidiaries and Affiliates from any such claim; if notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by accepting the Award, you shall be deemed irrevocably to have agreed to not pursue such claim and agree to execute any and all documents necessary to request the withdrawal of such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) Unless otherwise provided in the Plan or this Agreement, or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement to have the Restricted Stock Units transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for in connection with any Corporate Transaction affecting the Common Stock.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Waiver**. You agree that a waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other participant.

20. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

21. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

22. **Appendix**. Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

23. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

24. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

**(For Grants Beginning September
2013 and Prior to September 2015)**

**CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: __

Grant Date: __

Grant Number: __

Restricted Stock Units: __

First Vest Date: __

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: _____ percent (____%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each _____ anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under the employment laws in the jurisdiction where you are providing Service or the terms your employment or service agreement, if any. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service**. In the event of the termination of your Service for any reason (whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where you are employed or providing Service, or the terms your employment or service agreement, if any), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer providing Service; the Company shall have the exclusive discretion to determine when you are no longer providing Service for purposes of the Restricted Stock Units.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units**. To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable Tax-Related Items, as described and defined in Section 6 below, and such issuance otherwise complies with all applicable laws. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A ("Separation from Service") and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than six years after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the

foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company's first business day following the six-month anniversary of your Separation from Service.

6. **Taxes**.

(a) Regardless of any action the Company or your employer (the "Employer") takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares, and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. You agree to provide the Company and/or its stock plan broker/administrator with the information necessary to manage your Tax-Related Item withholding and acknowledge that should you fail to provide such information on a timely basis, the Company and/or its stock plan broker / administrator may be obligated to withhold amounts from you and it may be necessary for you to seek a refund directly from the tax authorities. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance. If the Company does not satisfy the obligation for Tax-Related Items by the withholding of Shares and instead withholds proceeds from the sale of Shares acquired upon settlement of the Restricted Stock Units, the Company may withhold or account for Tax-Related Items by considering maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash to the extent that any over-withheld amount has not otherwise been remitted to the applicable tax authority and will have no entitlement to the Common Stock equivalent.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. **Tax and Legal Advice**. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, the Employer's or the Company's or the Employer's representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND THE EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR THE EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the

Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law, including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights**. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Restricted Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information**

- (a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*
- (b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*
- (c) *You understand that the Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you Restricted Stock Units or other equity awards, or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to vest in or realize benefits from these Restricted Stock Units and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. **No Entitlement or Claims for Compensation**

- (a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.
- (b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment or service agreement (if any).
- (c) You acknowledge that you are voluntarily participating in the Plan.
- (d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason.
- (e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or service relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.
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(f) The future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that none of the Company, the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between the Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) No claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not later found to be invalid or in breach of the employment laws in the jurisdiction where you are employed or providing Service, or the terms your employment or service agreement, if any) and, in consideration of the grant of the Award to which you are not otherwise entitled, you irrevocably agree never to institute any claim against the Employer, the Company or its Parent, Subsidiaries or Affiliates, waive your ability, if any, to bring any such claim, and release the Company and its Parent, Subsidiaries and Affiliates from any such claim; if notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by accepting the Award, you shall be deemed irrevocably to have agreed to not pursue such claim and agree to execute any and all documents necessary to request the withdrawal of such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) Unless otherwise provided in the Plan or this Agreement, or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement to have the Restricted Stock Units transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for in connection with any Corporate Transaction affecting the Common Stock.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Waiver**. You agree that a waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other participant.

20. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

21. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

22. **Appendix**. Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

23. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

24. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

**CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

First Vest Date: _____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: _____ percent (____%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each _____ anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under applicable local law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service**. In the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer actively providing Service and will not be extended by any notice period mandated under local law (e.g., active Service would not include a period of "garden leave" or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Restricted Stock Units.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. Settlement of Restricted Stock Units. To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A (“Separation from Service”) and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than six years after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company’s first business day following the six-month anniversary of your Separation from Service.

6. Taxes.

(a) Regardless of any action the Company or your employer (the “Employer”) takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. Tax and Legal Advice. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer’s or the Company’s or the Employer’s representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights**. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Restricted Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information**.

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan .*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan .*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative .*

14. **No Entitlement or Claims for Compensation**.

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Restricted Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix**. Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

**CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Employee ID: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

First Vest Date: _____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule: _____(__%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the First Vest Date and on each _____anniversary thereafter, unless otherwise provided by the Plan or Section 4 below. If you take a leave of absence, the Company may, at its discretion, suspend vesting during the period of leave to the extent permitted under applicable local law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

3. **Termination of Service**. In the event of the termination of your Service for any reason (whether or not in breach of local labor laws), all unvested Restricted Stock Units shall be immediately forfeited without consideration. For purposes of the preceding sentence, your right to vest in the Restricted Stock Units will terminate effective as of the date that you are no longer actively providing Service and will not be extended by any notice period mandated under local law (*e.g.* , active Service would not include a period of "garden leave" or similar period pursuant to local law); the Company shall have the exclusive discretion to determine when you are no longer actively providing Service for purposes of the Restricted Stock Units.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction, such Restricted Stock Units shall automatically become vested in full immediately prior to the effective date of the Corporate Transaction. No such accelerated vesting, however, shall occur if and to the extent: (i) these Restricted Stock Units are, in connection with the Corporate Transaction, either assumed by the successor corporation (or parent thereof) or replaced with comparable restricted stock units of the successor corporation (or parent thereof) or (ii) these Restricted Stock Units are replaced with a cash incentive program of the successor corporation which complies with Code Section 409A and preserves the fair market value of the Restricted Stock Units at the time of the Corporate Transaction and provides for subsequent pay-out in accordance with the settlement provisions set forth in Section 5 below. The determination of the comparability of restricted stock units under clause (i) shall be made by the Committee, and such determination shall be final, binding and conclusive.

(b) Immediately following the effective date of the Corporate Transaction, this Agreement shall terminate and cease to be outstanding, except as set forth in Section 5 below with respect to the deferred settlement of Restricted Stock Units or to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this Agreement is assumed in connection with a Corporate Transaction, then the Committee shall appropriately adjust the number of units and the kind of shares or securities to be issued pursuant to this Agreement immediately after such Corporate Transaction.

(d) To the extent the Restricted Stock Units are outstanding at the time of a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Change in Control and shall become vested in full at that time and settled in accordance with Section 5 below.

(e) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. Settlement of Restricted Stock Units. To the extent you are eligible but have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax and/or other obligations pursuant to Section 6 below and such issuance otherwise complies with all applicable law. To the extent you are eligible but have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon the earlier of: (a) your separation from service within the meaning of Code Section 409A (“Separation from Service”) and (b) the fixed payment date elected by you, if any, at the time of such deferral (which shall be the first business day of a year no earlier than five years after the year of the Grant Date in accordance with procedures approved by the Committee), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Notwithstanding the foregoing, to the extent your Restricted Stock Units would otherwise be settled upon your Separation from Service, such settlement shall instead occur upon the Company’s first business day following the six-month anniversary of your Separation from Service.

6. Taxes.

(a) Regardless of any action the Company or your employer (the “Employer”) takes with respect to any and all income tax, social taxes or insurance contributions, payroll tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items with respect to the Restricted Stock Units is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant, vesting or settlement of the Restricted Stock Units, or the subsequent sale of any Shares acquired at vesting or the receipt of any dividends with respect to such Shares; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you become subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Prior to any relevant tax, withholding or required deduction event, as applicable, you agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax, withholding, required deduction and payment on account obligations of the Company and/or the Employer that arise in connection with the Restricted Stock Units. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligations related to Tax-Related Items by one or a combination of the following: (1) withholding from your wages or other cash compensation payable to you by the Company or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares that would otherwise be issued upon settlement of the Restricted Stock Units; or (4) requiring you to satisfy the liability for Tax-Related Items by means of any other arrangement approved by the Company. If the obligation for Tax-Related Items is satisfied by withholding of Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. To avoid financial accounting charges under applicable accounting guidance, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory rates or may take any other action required to avoid financial accounting charges under applicable accounting guidance.

(c) Finally, you will pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company shall not be required to issue or deliver Shares pursuant to this Agreement unless and until such obligations are satisfied.

7. Tax and Legal Advice. You represent, warrant and acknowledge that neither the Company nor your Employer have made any warranties or representations to you with respect to any Tax-Related Items, legal or financial consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company, your Employer’s or the Company’s or the Employer’s representatives for an assessment of such consequences. YOU UNDERSTAND THAT THE LAWS GOVERNING THIS AWARD ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN PROFESSIONAL TAX, LEGAL AND FINANCIAL ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. YOU UNDERSTAND THAT THE COMPANY AND YOUR EMPLOYER ARE NOT PROVIDING ANY TAX, LEGAL, OR FINANCIAL ADVICE, NOR IS THE COMPANY OR YOUR EMPLOYER MAKING ANY RECOMMENDATION REGARDING YOUR ACCEPTANCE OF THIS AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER OR OTHER PENALTIES.

8. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

9. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law including all applicable foreign laws.

10. **Restrictive Legends and Stop-Transfer Instructions**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends and/or appropriate stop-transfer instructions may be issued to the Company's transfer agent as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

11. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable laws.

12. **Voting and Other Rights**. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled in Shares. In addition, you shall not have any rights to dividend equivalent payments with respect to Restricted Stock Units.

13. **Authorization to Release and Transfer Necessary Personal Information**.

(a) *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal information as described in this Agreement by and among, as applicable, the Employer, and the Company and its Parent, Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

(b) *You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number (or any other social or national identification number), salary, nationality, job title, residency status, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding (the "Data") for the purpose of implementing, administering and managing your participation in the Plan. You understand that Data may be transferred to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such Shares may be deposited. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries or Affiliates, or to any third parties is necessary for your participation in the Plan.*

(c) *You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to vest in or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.*

14. **No Entitlement or Claims for Compensation**.

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. The Plan may be amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Restricted Stock Units to you or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past. All decisions with respect to future grants of Restricted Stock Units, if any, will be at the sole discretion of the Committee.

(b) The Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation and are not to be considered compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represent any portion of your salary, compensation or other remuneration for any purpose, including but not limited to,

calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Parent, Subsidiary or Affiliate. The value of the Restricted Stock Units is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Parent, Subsidiary or Affiliate and which is outside the scope of your written employment agreement (if any).

(c) You acknowledge that you are voluntarily participating in the Plan.

(d) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, Subsidiary or an Affiliate. The Employer reserves the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws, and a written employment agreement (if any).

(e) The grant of the Restricted Stock Units and your participation in the Plan will not be interpreted to form an employment contract or relationship with the Company, the Employer or any Parent, Subsidiary or Affiliate.

(f) The future value of the underlying Shares is unknown and cannot be predicted with certainty and if you vest in the Restricted Stock Units and are issued Shares, the value of those Shares may increase or decrease. You also understand that neither the Company, nor the Employer or any Parent, Subsidiary or Affiliate is responsible for any foreign exchange fluctuation between your Employer's local currency and the United States Dollar that may affect the value of this Award.

(g) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from termination of your Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and you irrevocably release the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, you shall be deemed irrevocably to have waived your entitlement to pursue such claim.

(h) You agree that the Company may require Shares received pursuant to the Restricted Stock Units to be held by a broker designated by the Company.

(i) You agree that your rights hereunder (if any) shall be subject to set-off by the Company for any valid debts you owe the Company.

(j) The Restricted Stock Units and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

15. **Governing Law and Forum**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof. For purposes of litigating any dispute that may arise directly or indirectly from this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts for the United States for the Northern District of California and no other courts.

16. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

17. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

18. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

19. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to your current or future participation in the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. **Language**. If this Agreement or any other document related to the Plan is translated into a language other than English and the meaning of the translated version is different from the English version, the English version will take precedence.

21. **Appendix**. Notwithstanding any provisions in this Agreement, the Restricted Stock Units shall be subject to any special terms and conditions set forth in any Appendix to this Agreement for your country of residence. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application

of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

22. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. You agree to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Furthermore, you acknowledge that the laws of the country in which you are working at the time of grant, vesting and settlement of the Restricted Stock Units or the sale of Shares received pursuant to this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor, or other matters) may subject you to additional procedural or regulatory requirements that you are and will be solely responsible for and must fulfill.

23. **Acceptance of Agreement**. You must expressly accept the terms and conditions of your Restricted Stock Units as set forth in this Agreement by electronically accepting this Agreement within 300 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Units in the manner instructed by the Company, your Restricted Stock Units will be subject to cancellation.

* * * *

You acknowledge that by clicking on the ***I agree*** button below, you agree to be bound by the terms of this Agreement.

PLEASE PRINT AND KEEP A COPY FOR YOUR RECORDS

[Date]

[Name]

[Address]

[Address]

Dear _____:

[introductory text]

Your leadership team has recommended that you receive a performance-based restricted stock unit (PRSU) right with a target of [_____]. RSUs will be granted after the end of FY[____] based upon the satisfaction of an FY[____] performance condition.

The right to receive a grant of a restricted stock unit depends on Cisco's satisfaction of certain [_____] targets for FY[____]. Assuming those targets are met or exceeded, the restricted stock units that you are granted will vest [_____] percent on the date of grant and [_____] percent on each of the next [_____] anniversaries of the date of grant thereafter, subject to your continued employment with Cisco or an affiliate on the applicable vesting date. On each vesting date, the vested units will be settled in Cisco common stock. In addition, in the unlikely event that a corporate transaction or change in control (each as defined in Cisco's 2005 Stock Incentive Plan) is consummated during FY[____] or prior to the Compensation and Management Development Committee's Certification regarding satisfaction of the FY[____] performance conditions, the performance-based restricted stock unit right will be deemed fully earned at target (100%) immediately prior to the effective date of the corporate transaction or the change in control, as the case may be, and will be settled in fully vested Cisco common stock at that time.

Lastly, please note that, if you are employed outside the United States, the Compensation and Management Development Committee can grant the PRSU Right to you, in its sole discretion, only if and as long as it is permitted and feasible to grant restricted stock units under the laws of the country in which you are employed. If local laws make the grant of restricted stock units illegal or impractical, Cisco will let you know as soon as possible. You are under no obligation to accept the PRSU Right or any restricted stock units that may subsequently be granted to you.

[concluding text]

Sincerely,

ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]

**Deferral Election for
Annual Equity Award
2005 Stock Incentive Plan
(For Elections Prior to January 2011)**

Name (Last, First, Middle Initial) _____

Employee Number _____

You may use this form to:

- Indicate the percentage of your annual restricted stock unit grant under the 2005 Stock Incentive Plan that you wish to defer. Your elected percentage will apply to each vesting installment of such grant.
- Designate the settlement timing of the deferred portion of your vested annual restricted stock unit grant.

PLEASE REMEMBER THAT ONCE YOU MAKE AN ELECTION TO DEFER A RESTRICTED STOCK UNIT GRANT, YOU CANNOT REVOKE THAT ELECTION.

DEFERRAL ELECTION

Please select if you wish to defer restricted stock units; fill in the appropriate blanks.

☒ **Restricted Stock Unit Grant** I elect to defer _____ % (you may only insert 25%, 50%, 75%, or 100%) of my annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on _____, 201__ (subject to my continued employment with the Company or the Employer). I understand that this elected percentage will apply to each vesting installment of this grant.

SETTLEMENT DATE *

Please complete this section to indicate settlement timing for the deferred portion of your vested annual restricted stock unit grant. You may only choose one alternative.

☒ **Separation of Service** I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to my Separation of Service (as defined in Section 409A of the Internal Revenue Code).

OR

☒ **Date Specific (subject to earlier settlement upon separation from service)** I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to the earlier of (i) my Separation from Service; or (ii) the first business day of 20 _____ (insert a year no earlier than 5 years after the year of grant and no later than 15 years after the year of grant).

* Any vested portion of the deferred portion of my restricted stock unit grant will be settled in shares of the Company's common stock.

ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]

**Deferral Election for
Annual Equity Award
2005 Stock Incentive Plan**

I understand:

- To the extent I do not elect to defer the settlement of my restricted stock unit grant, such portion of the restricted stock unit grant will be automatically settled in shares of the Company's common stock upon the vesting of the restricted stock unit grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- Any vested portion of the deferred restricted stock unit grant will be settled in shares of the Company's common stock as elected by me above.
- If my Separation from Service occurs before my restricted stock unit grant vests, any unvested restricted stock units will be forfeited as of the date my Separation from Service occurs.
- Any employment taxes that are due upon the vesting of my restricted stock unit grant (including the deferred portion of my grant) shall be deducted at the time of vesting by one or a combination of the following:
 - (1) withholding from my wages or other cash compensation payable to me by the Company or the Employer;
 - (2) withholding from proceeds of the sale of shares acquired upon settlement of the restricted stock units either through a voluntary sale or through a mandatory sale arranged by the Company (on my behalf pursuant to this authorization);
 - (3) withholding of shares that would otherwise be issued upon settlement of the restricted stock units; or
 - (4) requiring me to satisfy the liability for any employment taxes by means of any other arrangement approved by the Company.
- The receipt of shares of the Company's common stock pursuant to any restricted stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the stock unit grant is settled and I receive shares of the Company's common stock. This is true whether or not I elect to defer settlement of my restricted stock units.
- The settlement of the deferred portion of my annual restricted stock unit grant upon my Separation from Service will be delayed for 6 months.

ACKNOWLEDGED AND AGREED:

Signature of Participant

Date

ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]

**Deferral Election for
Annual Equity Award
2005 Stock Incentive Plan**

Name (Last, First, Middle Initial) _____

Employee Number _____

You may use this form to:

- Indicate the percentage of your annual restricted stock unit grant under the 2005 Stock Incentive Plan that you wish to defer. Your elected percentage will apply to each vesting installment of such grant.
- Designate the settlement timing of the deferred portion of your vested annual restricted stock unit grant.

PLEASE REMEMBER THAT ONCE YOU MAKE AN ELECTION TO DEFER A RESTRICTED STOCK UNIT GRANT, YOU CANNOT REVOKE THAT ELECTION.

DEFERRAL ELECTION

Please select if you wish to defer restricted stock units; fill in the appropriate blanks.

☒

**Restricted Stock
Unit Grant**

I elect to defer _____ % (you may only insert 25%, 50%, 75%, or 100%) of my annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on _____, 201__ (subject to my continued employment with the Company or the Employer). I understand that this elected percentage will apply to each vesting installment of this grant.

SETTLEMENT DATE *

Please complete this section to indicate settlement timing for the deferred portion of your vested annual restricted stock unit grant. You may only choose one alternative.

☒

Separation of Service

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to my Separation of Service (as defined in Section 409A of the Internal Revenue Code).

OR

☒

**Date Specific (subject
to earlier settlement
upon separation from service)**

I elect to defer the settlement of the deferred portion of my vested annual restricted stock unit grant to the earlier of (i) my Separation from Service; or (ii) the first business day of 20 _____ (insert a year no earlier than 6 years after the year of grant and no later than 15 years after the year of grant).

* Any vested portion of the deferred portion of my restricted stock unit grant will be settled in shares of the Company's common stock.

ACTION REQUIRED : MUST BE RETURNED BY [INSERT APPROPRIATE DATE]

**Deferral Election for
Annual Equity Award
2005 Stock Incentive Plan**

I understand:

- To the extent I do not elect to defer the settlement of my restricted stock unit grant, such portion of the restricted stock unit grant will be automatically settled in shares of the Company's common stock upon the vesting of the restricted stock unit grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- Any vested portion of the deferred restricted stock unit grant will be settled in shares of the Company's common stock as elected by me above.
- If my Separation from Service occurs before my restricted stock unit grant vests, any unvested restricted stock units will be forfeited as of the date my Separation from Service occurs.
- "Separation from Service" is defined in Treasury Regulation Section 1.409A-1(h). While separation from service generally means termination of employment, a Separation from Service can also occur in the case of certain leaves of absence or upon a significant reduction in my work schedule. These events can trigger a "Separation from Service" resulting in the forfeiture of my unvested restricted stock units.
- Certain leaves of absence can result in the suspension of vesting of my unvested restricted stock units. If I take a leave of absence that suspends the vesting of my restricted stock units such that they are unvested as of the applicable distribution event (whether that is Separation from Service or a date specific I elected), my restricted stock units that are unvested at the time of such distribution event shall be forfeited.
- Any employment taxes that are due upon the vesting of my restricted stock unit grant (including the deferred portion of my grant) shall be deducted at the time of vesting by one or a combination of the following:
 - (1) withholding from my wages or other cash compensation payable to me by the Company or the Employer;
 - (2) withholding from proceeds of the sale of shares acquired upon settlement of the restricted stock units either through a voluntary sale or through a mandatory sale arranged by the Company (on my behalf pursuant to this authorization);
 - (3) withholding of shares that would otherwise be issued upon settlement of the restricted stock units; or
 - (4) requiring me to satisfy the liability for any employment taxes by means of any other arrangement approved by the Company.
- The receipt of shares of the Company's common stock pursuant to any restricted stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the stock unit grant is settled and I receive shares of the Company's common stock. This is true whether or not I elect to defer settlement of my restricted stock units.
- The settlement of the deferred portion of my annual restricted stock unit grant upon my Separation from Service will be delayed for 6 months.

ACKNOWLEDGED AND AGREED:

Signature of Participant

Date

**CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

Vest Date: _____ (the date of the Annual Meeting of Shareholders following the initial election or appointment date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.

3. **Termination of Service**. Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units**. To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

6. **Tax Advice**. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

8. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. **Stock Certificate Restrictive Legends**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. **Voting, Dividend and Other Rights**. Subject to the terms of this Agreement and except as set forth below, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled in Shares. To the extent you have elected to defer settlement of Restricted Stock Units with a Grant Date on or after the Company's 2015 Annual Meeting of Shareholders, dividend equivalents shall accrue after the vesting of the Restricted Stock Units and will be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach as set forth in the Plan or this Agreement and will be settled in additional Shares upon your Separation from Service.

12. **Authorization to Release Necessary Personal Information**.

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the “Data”) regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting the Company’s local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units and your ability to participate in the Plan.

13. No Entitlement or Claims for Compensation

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company’s shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company’s Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company’s principal corporate offices or to you at the address maintained for you in the Company’s records or, in either case, as subsequently modified by written notice to the other party.

16. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

Non-Employee Director Initial RSU Grant
(For Grants Beginning November 2012 Through the Date that is
One Day Prior to the Date of the Company's 2015 Annual Meeting of Shareholders)

CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

Vest Date: _____ (the date of the Annual Meeting of Shareholders following the initial election or appointment date)

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.

3. **Termination of Service**. Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units**. To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law.

6. **Tax Advice**. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

8. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. **Stock Certificate Restrictive Legends**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. **Voting and Other Rights**. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

12. **Authorization to Release Necessary Personal Information**.

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

13. **No Entitlement or Claims for Compensation**.

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

Vest Date: The completion of one (1) year of Board service measured from the Grant Date.

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.

3. **Termination of Service**. Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. **Special Acceleration**.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. **Settlement of Restricted Stock Units**. To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A (“Separation from Service”), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. Prior to the time that the Restricted Stock Units are settled, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

6. **Tax Advice**. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company’s representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process, whether voluntarily or involuntarily or by operation of law.

8. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company’s transfer agent) if, in the judgment of the Company and the Company’s counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. **Stock Certificate Restrictive Legends**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company’s counsel deem necessary under applicable law or pursuant to this Agreement.

10. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company’s counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. **Voting, Dividend and Other Rights**. Subject to the terms of this Agreement and except as set forth below, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled in Shares. To the extent you have elected to defer settlement of Restricted Stock Units with a Grant Date on or after the Company’s 2015 Annual Meeting of Shareholders, dividend equivalents shall accrue after the vesting of the Restricted Stock Units and will be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach as set forth in the Plan or this Agreement and will be settled in additional Shares upon your Separation from Service.

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(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the “Data”) regarding your service, the nature and amount of your c

compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units and your ability to participate in the Plan.

13. **No Entitlement or Claims for Compensation**.

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(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

(a) 17. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

NON-EMPLOYEE DIRECTOR ANNUAL RSU GRANT
(For Grants Beginning Fiscal 2009 Through the Date that is
One Day Prior to the Date of the Company's 2015 Annual Meeting of Shareholders)

CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

Vest Date: The completion of one (1) year of Board service measured from the Grant Date.

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. Restricted Stock Units. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. Vesting of Restricted Stock Units. So long as your service on the Board continues, the Restricted Stock Units shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 4 below.

3. Termination of Service. Except as provided in Section 4 below, in the event of the termination of your Board service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. Special Acceleration.

(a) To the extent the Restricted Stock Units are outstanding at the time of a Corporate Transaction or a Change in Control, such Restricted Stock Units shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability, to the extent the Restricted Stock Units are outstanding, such Restricted Stock Units shall automatically accelerate and shall become vested in full at that time.

(c) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

5. Settlement of Restricted Stock Units. To the extent you have not elected to defer settlement of the Restricted Stock Units, the Restricted Stock Units shall be automatically settled in Shares upon vesting of such Restricted Stock Units, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law. To the extent you have elected to defer settlement of the Restricted Stock Units, the vested portion of the Restricted Stock Units shall be settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless such issuance complies with all applicable law.

6. Tax Advice. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. Non-Transferability of Restricted Stock Units. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

8. Restriction on Transfer. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. Stock Certificate Restrictive Legends. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. Representations, Warranties, Covenants, and Acknowledgments. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. Voting and Other Rights. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon vesting.

12. Authorization to Release Necessary Personal Information.

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled upon vesting, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

13. No Entitlement or Claims for Compensation.

(a) Your rights, if any, in respect of or in connection with these Restricted Stock Units or any other Award are derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting these Restricted Stock Units, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. These Restricted Stock Units are not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your compensation or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor these Restricted Stock Units or any other Award granted under the Plan shall be deemed to give you a right to continue to serve on the Board of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate your service on the Board at any time, for any reason, with or without cause, in accordance with the provisions of applicable law, the Company's Articles of Incorporation and Bylaws. You shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, these Restricted Stock Units or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or

registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. Binding Effect. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

**NON-EMPLOYEE DIRECTOR INITIAL GRANT
(For Grants Prior to Fiscal 2009)**

**CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: _____

Grant Date: _____

Type of Option: Nonstatutory Stock Option

Grant Number: _____

Number of Option Shares: _____ shares

Exercise Price: \$ _____ per share

Expiration Date: _____

Date Exercisable: Immediately Exercisable

Vesting Schedule

The Option Shares shall initially be unvested and subject to repurchase by the Company at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Company's repurchase right shall accordingly lapse, with respect to, the Option Shares in a series of four (4) successive equal annual installments upon Optionee's completion of each year of service as a member of the Board over the four (4) year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

REPURCHASE RIGHT. OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE COMPANY, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE BOARD PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

No Service Contract. Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue to serve on the Board for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate Optionee's service on the Board at any time, for any reason, with or without cause, and in accordance with the provisions of applicable law.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

DATED: _____, ____

CISCO SYSTEMS, INC.

By: _____

Title: _____

OPTIONEE

STOCK OPTION AGREEMENT

Recitals

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

NOW, THEREFORE, it is hereby agreed as follows:

1. Grant of Option. The Company hereby grants to Optionee, as of the Grant Date, a Nonstatutory Stock Option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

2. Option Term. This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5, 6 or 7.

3. Non-Transferability. This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

4. Exercisability/Vesting.

(a) This Option shall be immediately exercisable for any or all of the Option Shares, whether or not the Option Shares are vested in accordance with the Vesting Schedule set forth in the Notice, and shall remain so exercisable until the Expiration Date or the sooner termination of the Option term under this Paragraph 4 or Paragraph 5, 6 or 7.

(b) Optionee shall, in accordance with the Vesting Schedule set forth in the Notice, vest in the Option Shares in a series of installments over his or her period of Board service. Vesting in the Option Shares may be accelerated pursuant to the provisions of Paragraph 5, 6 or 7. In no event, however, shall any additional Option Shares vest following Optionee's cessation of service as a Board member.

(c) As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5, 6 or 7 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in service as provided in Paragraph 5(a) and the date twelve (12) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

5. Cessation of Board Service. Should Optionee's service as a Board member cease while this Option remains outstanding, then the Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date in accordance with the following provisions:

(a) Should Optionee cease to serve as a Board member for any reason (other than death or Disability) while this Option is outstanding, then the period for exercising this Option shall be reduced to a twelve (12)-month period commencing with the date of such cessation of Board service, but in no event shall this Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this Option may not be exercised in the aggregate for more than the number of Option Shares (if any) in which Optionee is vested on the date of his or her cessation of Board service. Upon the earlier of (i) the expiration of such twelve (12)-month period or (ii) the specified Expiration Date, the Option shall terminate and cease to be exercisable with respect to any vested Option Shares for which the Option has not been exercised.

(b) Should Optionee die during the twelve (12)-month period following his or her cessation of Board service and hold this Option at the time of his or her death, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option for any or all of the Option Shares in which Optionee is vested at the time of Optionee's cessation of Board service (less any Option Shares purchased by Optionee after such cessation of Board service but prior to death). Such right of exercise shall terminate, and this Option shall accordingly cease to be exercisable for such vested Option Shares, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(c) Should Optionee cease service as a Board member by reason of death or Disability, then all Option Shares at the time subject to this Option but not otherwise vested shall immediately vest in full so that Optionee (or the personal representative of Optionee's estate or the person or persons to whom the Option is transferred upon Optionee's death) shall have the right to exercise this Option for any or all of

the Option Shares as fully-vested shares of Common Stock at any time prior to the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(d) Upon Optionee's cessation of Board service for any reason other than death or Disability, this Option shall immediately terminate and cease to be outstanding with respect to any and all Option Shares in which Optionee is not otherwise at that time vested in accordance with the normal Vesting Schedule set forth in the Notice or the special vesting acceleration provisions of Paragraph 6 or 7 below.

6. Corporate Transaction .

(a) In the event of a Corporate Transaction, all Option Shares at the time subject to this Option but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

(b) If this Option is assumed in connection with a Corporate Transaction, then this Option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the Option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

7. Change In Control/Hostile Take-Over .

(a) All Option Shares subject to this Option at the time of a Change In Control but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the effective date of such Change In Control, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. This Option shall remain exercisable for such fully-vested Option Shares until the earliest to occur of (i) the specified Expiration Date, (ii) the sooner termination of this Option in accordance with Paragraph 4, 5 or 6 or (iii) the surrender of this Option under Paragraph 7(b).

(b) Optionee shall have an unconditional right (exercisable during the thirty (30)-day period immediately following the consummation of a "Hostile Take-Over" (as defined below)) to surrender this Option to the Company in exchange for a cash distribution from the Company in an amount equal to the excess of (i) the "Take-Over Price" (as defined below) of the Option Shares at the time subject to the surrendered Option (whether or not those Option Shares are otherwise at the time vested) over (ii) the aggregate Exercise Price payable for such shares. This Paragraph 7(b) limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the Option term and may not be assigned or transferred by Optionee. For purposes of this Option, "Hostile Take-Over" shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than thirty five percent (35%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which the Board does not recommend such shareholders to accept. Further, for purposes of this Option, "Take-Over Price" shall mean the greater of (i) the Fair Market Value on the date the Option is surrendered to the Company in connection with a Hostile Take-Over, or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over.

(c) To exercise the Paragraph 7(b) limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Company with written notice of the option surrender in which there is specified the number of Option Shares as to which the Option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of this Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date. Upon receipt of such cash distribution, this Option shall be cancelled with respect to the shares subject to the surrendered Option (or the surrendered portion), and Optionee shall cease to have any further right to acquire those Option Shares under this Agreement. The Option shall, however, remain outstanding for the balance of the Option Shares (if any) in accordance with the terms and provisions of this Agreement, and the Company shall accordingly issue a new stock option agreement (substantially in the same form as this Agreement) for those remaining Option Shares.

8. Adjustment in Option Shares. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

9. Shareholder Rights. The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

10. Manner of Exercising Option .

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.

(iv) To the extent that the option is exercised for one or more unvested Option Shares, Optionee (or other person exercising the option) shall deliver to the Secretary of the Company a purchase agreement for those unvested Option Shares.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

11. No Impairment of Rights. This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, nothing in this Agreement shall in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Company or the shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

12. Compliance with Laws and Regulations.

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

13. Successors and Assigns. Except to the extent otherwise provided in Paragraphs 3, 5, 6 and 7, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

14. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

15. Construction. The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

16. Governing Law. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

17. Excess Shares. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

18. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

**NON-EMPLOYEE DIRECTOR ANNUAL GRANT
(For Grants Prior to Fiscal 2009)**

**CISCO SYSTEMS, INC.
NOTICE OF GRANT OF STOCK OPTION**

Notice is hereby given of the following option grant (the "Option") made to purchase shares of Cisco Systems, Inc. (the "Company") common stock:

Optionee: _____

Grant Date: _____

Type of Option: Nonstatutory Stock Option

Grant Number: _____

Number of Option Shares: _____ shares

Exercise Price: \$ _____ per share

Expiration Date: _____

Date Exercisable: Immediately Exercisable

Vesting Schedule

The Option Shares shall initially be unvested and subject to repurchase by the Company at the Exercise Price paid per share. Optionee shall acquire a vested interest in, and the Company's repurchase right shall accordingly lapse, with respect to, the Option Shares in a series of two (2) successive equal annual installments upon Optionee's completion of each year of service as a member of the Board over the two (2) year period measured from the Grant Date. In no event shall any additional Option Shares vest after Optionee's cessation of Board service.

REPURCHASE RIGHT. OPTIONEE HEREBY AGREES THAT ALL UNVESTED OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL NOT BE TRANSFERABLE AND SHALL BE SUBJECT TO REPURCHASE BY THE COMPANY, AT THE EXERCISE PRICE PAID PER SHARE, UPON OPTIONEE'S TERMINATION OF SERVICE AS A MEMBER OF THE BOARD PRIOR TO VESTING IN THOSE SHARES. THE TERMS AND CONDITIONS OF SUCH REPURCHASE RIGHT SHALL BE SPECIFIED IN A STOCK PURCHASE AGREEMENT, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, EXECUTED BY OPTIONEE AT THE TIME OF THE OPTION EXERCISE.

Optionee understands and agrees that the Option is offered subject to and in accordance with the terms of the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto.

No Service Contract. Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue to serve on the Board for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or the Company's shareholders, which rights are hereby expressly reserved by each, to terminate Optionee's service on the Board at any time, for any reason, with or without cause, and in accordance with the provisions of applicable law.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice, the attached Stock Option Agreement or the Plan.

DATED: _____, ____

CISCO SYSTEMS, INC.

By: _____

Title: _____

OPTIONEE

STOCK OPTION AGREEMENT

Recitals

- A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or of the board of directors of any Parent or Subsidiary and Consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).
- B. Optionee is to render valuable services to the Company (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of an option to Optionee.
- C. All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement, the attached Notice of Grant of Stock Option (the "Notice"), or the Plan.

NOW, THEREFORE, it is hereby agreed as follows:

1. Grant of Option. The Company hereby grants to Optionee, as of the Grant Date, a Nonstatutory Stock Option to purchase up to the number of Option Shares specified in the Notice. The Option Shares shall be purchasable from time to time during the Option term specified in Paragraph 2 at the Exercise Price specified in the Notice.

2. Option Term. This Option shall have a maximum term of nine (9) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 4, 5, 6 or 7.

3. Non-Transferability. This Option shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. Notwithstanding the foregoing, should the Optionee die while holding this Option, then this Option shall be transferred in accordance with Optionee's will or the laws of descent and distribution.

4. Exercisability/Vesting.

(a) This Option shall be immediately exercisable for any or all of the Option Shares, whether or not the Option Shares are vested in accordance with the Vesting Schedule set forth in the Notice, and shall remain so exercisable until the Expiration Date or the sooner termination of the Option term under this Paragraph 4 or Paragraph 5, 6 or 7.

(b) Optionee shall, in accordance with the Vesting Schedule set forth in the Notice, vest in the Option Shares in a series of installments over his or her period of Board service. Vesting in the Option Shares may be accelerated pursuant to the provisions of Paragraph 5, 6 or 7. In no event, however, shall any additional Option Shares vest following Optionee's cessation of service as a Board member.

(c) As an administrative matter, the exercisable portion of this Option may only be exercised until the close of the Nasdaq Global Select Market on the Expiration Date or the earlier termination date under Paragraph 5, 6 or 7 or, if such date is not a trading day on the Nasdaq Global Select Market, the last trading day before such date. Any later attempt to exercise this Option will not be honored. For example, if Optionee ceases to remain in service as provided in Paragraph 5(a) and the date twelve (12) months from the date of cessation is Monday, July 4 (a holiday on which the Nasdaq Global Select Market is closed), Optionee must exercise the exercisable portion of this Option by 4 pm Eastern Daylight Time on Friday, July 1.

5. Cessation of Board Service. Should Optionee's service as a Board member cease while this Option remains outstanding, then the Option term specified in Paragraph 2 shall terminate (and this Option shall cease to be outstanding) prior to the Expiration Date in accordance with the following provisions:

(a) Should Optionee cease to serve as a Board member for any reason (other than death or Disability) while this Option is outstanding, then the period for exercising this Option shall be reduced to a twelve (12)-month period commencing with the date of such cessation of Board service, but in no event shall this Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this Option may not be exercised in the aggregate for more than the number of Option Shares (if any) in which Optionee is vested on the date of his or her cessation of Board service. Upon the earlier of (i) the expiration of such twelve (12)-month period or (ii) the specified Expiration Date, the Option shall terminate and cease to be exercisable with respect to any vested Option Shares for which the Option has not been exercised.

(b) Should Optionee die during the twelve (12)-month period following his or her cessation of Board service and hold this Option at the time of his or her death, then the personal representative of Optionee's estate or the person or persons to whom the Option is transferred pursuant to Optionee's will or in accordance with the laws of descent and distribution shall have the right to exercise this Option for any or all of the Option Shares in which Optionee is vested at the time of Optionee's cessation of Board service (less any Option Shares purchased by Optionee after such cessation of Board service but prior to death). Such right of exercise shall terminate, and this Option shall accordingly cease to be exercisable for such vested Option Shares, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(c) Should Optionee cease service as a Board member by reason of death or Disability, then all Option Shares at the time subject to this Option but not otherwise vested shall immediately vest in full so that Optionee (or the personal representative of Optionee's estate or the

person or persons to whom the Option is transferred upon Optionee's death) shall have the right to exercise this Option for any or all of the Option Shares as fully-vested shares of Common Stock at any time prior to the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's cessation of Board service or (ii) the specified Expiration Date.

(d) Upon Optionee's cessation of Board service for any reason other than death or Disability, this Option shall immediately terminate and cease to be outstanding with respect to any and all Option Shares in which Optionee is not otherwise at that time vested in accordance with the normal Vesting Schedule set forth in the Notice or the special vesting acceleration provisions of Paragraph 6 or 7 below.

6. Corporate Transaction

(a) In the event of a Corporate Transaction, all Option Shares at the time subject to this Option but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, this Option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company.

(b) If this Option is assumed in connection with a Corporate Transaction, then this Option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the Option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

7. Change In Control/Hostile Take-Over

(a) All Option Shares subject to this Option at the time of a Change In Control but not otherwise vested shall automatically vest so that this Option shall, immediately prior to the effective date of such Change In Control, become fully exercisable for all of the Option Shares at the time subject to this Option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. This Option shall remain exercisable for such fully-vested Option Shares until the earliest to occur of (i) the specified Expiration Date, (ii) the sooner termination of this Option in accordance with Paragraph 4, 5 or 6 or (iii) the surrender of this Option under Paragraph 7(b).

(b) Optionee shall have an unconditional right (exercisable during the thirty (30)-day period immediately following the consummation of a "Hostile Take-Over" (as defined below)) to surrender this Option to the Company in exchange for a cash distribution from the Company in an amount equal to the excess of (i) the "Take-Over Price" (as defined below) of the Option Shares at the time subject to the surrendered Option (whether or not those Option Shares are otherwise at the time vested) over (ii) the aggregate Exercise Price payable for such shares. This Paragraph 7(b) limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the Option term and may not be assigned or transferred by Optionee. For purposes of this Option, "Hostile Take-Over" shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than thirty five percent (35%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which the Board does not recommend such shareholders to accept. Further, for purposes of this Option, "Take-Over Price" shall mean the greater of (i) the Fair Market Value on the date the Option is surrendered to the Company in connection with a Hostile Take-Over, or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over.

(c) To exercise the Paragraph 7(b) limited stock appreciation right, Optionee must, during the applicable thirty (30)-day exercise period, provide the Company with written notice of the option surrender in which there is specified the number of Option Shares as to which the Option is being surrendered. Such notice must be accompanied by the return of Optionee's copy of this Agreement, together with any written amendments to such Agreement. The cash distribution shall be paid to Optionee within five (5) business days following such delivery date. Upon receipt of such cash distribution, this Option shall be cancelled with respect to the shares subject to the surrendered Option (or the surrendered portion), and Optionee shall cease to have any further right to acquire those Option Shares under this Agreement. The Option shall, however, remain outstanding for the balance of the Option Shares (if any) in accordance with the terms and provisions of this Agreement, and the Company shall accordingly issue a new stock option agreement (substantially in the same form as this Agreement) for those remaining Option Shares.

8. Adjustment in Option Shares. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, appropriate adjustments shall be made to (i) the total number and/or kind of shares or securities subject to this Option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

9. Shareholder Rights. The holder of this Option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the Option, paid the Exercise Price and become a holder of record of the purchased Shares.

10. Manner of Exercising Option

(a) In order to exercise this Option with respect to all or any part of the Option Shares for which this Option is at the time exercisable, Optionee (or any other person or persons exercising the Option) must take the following actions:

(i) Pay the aggregate Exercise Price for the purchased Shares in one or more of the following forms:

(A) cash or check which, in the Company's sole discretion, shall be made payable to a Company-designated brokerage firm or the Company; and

(B) as permitted by applicable law, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the Option) shall concurrently provide irrevocable written instructions (I) to a Company-designated brokerage firm (or in the case of an executive officer or Board member of the Company, an Optionee-designated brokerage firm) to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased Shares plus, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates and (II) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(ii) Furnish to the Company appropriate documentation that the person or persons exercising the Option (if other than Optionee) have the right to exercise this Option.

(iii) Make appropriate arrangements with the Company (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all tax withholding requirements applicable to the Option exercise.

(iv) To the extent that the option is exercised for one or more unvested Option Shares, Optionee (or other person exercising the option) shall deliver to the Secretary of the Company a purchase agreement for those unvested Option Shares.

(b) As soon as practical after the exercise date, the Company shall issue to or on behalf of Optionee (or any other person or persons exercising this Option) the purchased Option Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company), subject to the appropriate legends and/or stop transfer instructions.

(c) In no event may this Option be exercised for any fractional Shares.

11. No Impairment of Rights. This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, nothing in this Agreement shall in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Company or the shareholders to remove Optionee from the Board at any time in accordance with the provisions of applicable law.

12. Compliance with Laws and Regulations.

(a) The exercise of this Option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable laws, regulations and rules relating thereto, including all applicable regulations of any stock exchange (or the Nasdaq Global Select Market, if applicable) on which the Shares may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Shares pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Shares as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

13. Successors and Assigns. Except to the extent otherwise provided in Paragraphs 3, 5, 6 and 7, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

14. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to the Optionee at the address maintained for the Optionee in the Company's records or, in either case, as subsequently modified by written notice to the other party.

15. Construction. The Notice, this Agreement, and the Option evidenced hereby (a) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (b) constitute the entire agreement between Optionee and the Company on the subject matter hereof and supercede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Notice, this Agreement or the Plan shall be conclusive and binding on all persons having an interest in this Option.

16. Governing Law . The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to the conflict of laws principles thereof.

17. Excess Shares . If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of Shares which may without shareholder approval be issued under the Plan, then this Option shall be void with respect to those excess shares, unless shareholder approval of an amendment sufficiently increasing the number of Shares issuable under the Plan is obtained in accordance with the provisions of the Plan and all applicable laws, regulations and rules.

18. Further Instruments . The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

CISCO SYSTEMS, INC.
STOCK GRANT AGREEMENT

This Stock Grant Agreement (the “Agreement”) is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the “Company”), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the “Plan”). The material terms of this Stock Grant Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Shares: _____

Vest Date: The completion of one (1) year of Board service measured from the Grant Date.

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. Restricted Shares. Pursuant to the Plan, the Company hereby transfers to you, and you hereby accept from the Company, a Stock Grant Award consisting of the Restricted Shares, on the terms and conditions set forth herein and in the Plan.

2. Vesting of Restricted Shares. So long as your service on the Board continues, the Restricted Shares shall vest in accordance with the following schedule: one-hundred percent (100%) of the total number of Restricted Shares issued pursuant to this Agreement shall vest on the Vest Date, unless otherwise provided by the Plan or Section 3 below. Except as provided in Section 3 below, in the event of the termination of your Board service for any reason, all unvested Restricted Shares shall be immediately forfeited without consideration. For purposes of facilitating the enforcement of the provisions of this Section 2, the Company may issue stop-transfer instructions on the Restricted Shares to the Company’s transfer agent, or otherwise hold the Restricted Shares in escrow, until the Restricted Shares have vested and you have satisfied all applicable obligations with respect to the Restricted Shares, including any applicable tax withholding obligations set forth in Section 5 below. Any new, substituted or additional securities or other property which is issued or distributed with respect to the unvested Restricted Shares shall be subject to the same terms and conditions as are applicable to the unvested Restricted Shares under this Agreement and the Plan.

3. Special Acceleration.

(a) To the extent the Restricted Shares are outstanding at the time of a Corporate Transaction or a Change in Control, but not otherwise fully vested, such Restricted Shares shall automatically accelerate immediately prior to the effective date of the Corporate Transaction or the Change in Control, as the case may be, and shall become vested in full at that time.

(b) If your service on the Board ceases as a result of your death or Disability then, to the extent the Restricted Shares are outstanding, but not otherwise fully vested, such Restricted Shares shall automatically accelerate and shall become vested in full at that time.

(c) This Stock Grant Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

4. Restriction on Election to Recognize Income in the Year of Grant. Under Section 83 of the Code, the Fair Market Value of the Restricted Shares on the date the Restricted Shares vest will be taxable as ordinary income at that time. You understand, acknowledge and agree that, as a condition to the grant of this Award, you may not elect to be taxed at the time the Restricted Shares are acquired by filing an election under Section 83(b) of the Code with the Internal Revenue Service.

5. Withholding Taxes. You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable withholding tax obligations that arise in connection with the Restricted Shares which, at the sole discretion of the Company, may include (i) having the Company withhold Shares from the Restricted Shares held in escrow, or (ii) any other arrangement approved by the Company, in any case, equal in value to the amount necessary to satisfy any such withholding tax obligation. Such Shares shall be valued based on the Fair Market Value as of the day prior to the date that the amount of tax to be withheld is to be determined under applicable law. The Company shall not be required to release the Restricted Shares from the stop-transfer instructions or escrow unless and until such obligations are satisfied.

6. Tax Advice. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY STOCK GRANT AWARD. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. Non-Transferability of Restricted Shares. Restricted Shares which have not vested pursuant to Section 2 above shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by the operation of law. However, this Section 7 shall not preclude you from designating a beneficiary who will receive any vested Restricted Shares in the event of the your death, nor shall it preclude a transfer of vested Restricted Shares by will or by the laws of descent and distribution.

8. Restriction on Transfer. Regardless of whether the transfer or issuance of the Restricted Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Restricted Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. Stock Certificate Restrictive Legends. Stock certificates evidencing the Restricted Shares may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. Representations, Warranties, Covenants, and Acknowledgments. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Restricted Shares may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. Voting and Other Rights. Subject to the terms of this Agreement, you shall have all the rights and privileges of a shareholder of the Company while the Restricted Shares are subject to stop-transfer instructions, or otherwise held in escrow, including the right to vote and to receive dividends (if any).

12. Authorization to Release Necessary Personal Information.

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of this Stock Grant Award under the Plan or with whom Shares acquired pursuant to this Stock Grant Award or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from this Stock Grant Award, and your ability to participate in the Plan.

13. No Entitlement or Claims for Compensation.

(a) Your rights, if any, in respect of or in connection with this Stock Grant Award or any other Award is derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting this Stock Grant Award, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. This Stock Grant Award is not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Stock Grant Award or any other Award granted under the Plan shall be deemed to give you a right to remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Stock Grant Award or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) You agree that the Company may require that Restricted Shares be held by a broker designated by the Company. In addition, you agree that your rights hereunder shall be subject to set-off by the Company for any valid debts you owe the Company.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

15. Notices. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

16. Binding Effect. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

17. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

DATED: _____, ____

CISCO SYSTEMS, INC.

By: _____

Title: _____

GRANTEE

CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant Date: _____

Grant Number: _____

Restricted Stock Units: _____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. **Restricted Stock Units**. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. **Vesting of Restricted Stock Units**. One-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Grant Date.

3. **Settlement of Restricted Stock Units**. Restricted Stock Units shall be automatically settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until such issuance complies with all applicable law. Prior to the time that the Restricted Stock Units are settled in Shares upon your Separation from Service, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

4. **Tax Advice**. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

5. **Non-Transferability of Restricted Stock Units**. Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law.

6. **Restriction on Transfer**. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

7. **Stock Certificate Restrictive Legends**. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

8. **Representations, Warranties, Covenants, and Acknowledgments**. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

9. **Voting, Dividend and Other Rights**. Subject to the terms of this Agreement and except as set forth below, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled upon your Separation from Service. Dividend equivalents shall accrue and will be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach as set forth in the Plan or this Agreement and will be settled in additional Shares upon your Separation from Service.

10. **Authorization to Release Necessary Personal Information**.

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units and your ability to participate in the Plan.

11. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

12. **Notices**. Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or

fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

13. **Binding Effect**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

14. **Severability**. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

**NON-EMPLOYEE DIRECTOR STOCK UNIT
IN LIEU OF ANNUAL RETAINER
(For Grants Effective Prior to the Date of the
Company's 2015 Annual Meeting of Shareholders)**

**CISCO SYSTEMS, INC.
STOCK UNIT AGREEMENT**

This Stock Unit Agreement (the "Agreement") is made and entered into as of the Grant Date (as defined below) by and between Cisco Systems, Inc., a California corporation (the "Company"), and you pursuant to the Cisco Systems, Inc. 2005 Stock Incentive Plan (the "Plan"). The material terms of this Stock Unit Award are as follows:

Grantee: _____

Grant
Date: _____

Grant
Number: _____

Restricted Stock
Units: _____

To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. Restricted Stock Units. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, Restricted Stock Units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share, on the terms and conditions set forth herein and in the Plan.

2. Vesting of Restricted Stock Units. One-hundred percent (100%) of the total number of Restricted Stock Units granted pursuant to this Agreement shall vest on the Grant Date.

3. Settlement of Restricted Stock Units. Restricted Stock Units shall be automatically settled in Shares upon your separation from service within the meaning of Code Section 409A ("Separation from Service"), provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax withholding obligations and such issuance otherwise complies with all applicable law.

4. Tax Advice . You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

5. Non-Transferability of Restricted Stock Units . Restricted Stock Units shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily or involuntarily or by operation of law. However, this Section 5 shall not preclude you from designating a beneficiary who will receive vested Shares pursuant to this award in the event of your death, nor shall it preclude a transfer of vested Shares pursuant to this award by will or by the laws of descent and distribution.

6. Restriction on Transfer . Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

7. Stock Certificate Restrictive Legends . Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

8. Representations, Warranties, Covenants, and Acknowledgments . You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

9. Voting and Other Rights . Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a shareholder of the Company unless and until the Restricted Stock Units are settled in Shares upon your Separation from Service.

10. Authorization to Release Necessary Personal Information .

(a) You hereby authorize and direct the Company to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your service, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or any other social or national identification number), compensation, nationality, job title, number of Shares held and the details of all Awards or any other entitlement to Shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of these Restricted Stock Units under the Plan or with whom Shares acquired pursuant to these Restricted Stock Units or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Subsidiaries, or to any third parties is necessary for your participation in the Plan.

(b) Prior to the time that the Restricted Stock Units are settled in Shares upon your Separation from Service, you shall have no rights other than those of a general creditor of the Company. The Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

(c) You may at any time withdraw the consents herein by contacting the Company's local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to exercise or realize benefits from these Restricted Stock Units, and your ability to participate in the Plan.

11. Governing Law . This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflict of laws principles thereof.

12. Notices . Any notice required or permitted under the terms of this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by confirmed email, telegram, or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the Company at the Company's principal corporate offices or to you at the address maintained for you in the Company's records or, in either case, as subsequently modified by written notice to the other party.

13. Binding Effect . Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors, and assigns of the parties hereto.

14. Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

DATED: _____

CISCO SYSTEMS, INC.

By: _____
Title: _____

GRANTEE

**NON-EMPLOYEE DIRECTOR ELECTION
INITIAL EQUITY AWARD**

I, being a prospective newly elected or appointed non-employee member of the Board of Directors of Cisco Systems, Inc. (the "Company") hereby (check one):

(i) ☐ **ELECT** or (ii) ☐ **DO NOT ELECT** to defer the settlement of my total initial restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on the date of my election or appointment in connection with my initial election or appointment as a non-employee member of the Board of Directors of the Company.

I understand the following:

- If I do not elect to defer the settlement of my initial restricted stock unit grant, the grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the vesting of the grant on the date of the Company's Annual Meeting of Shareholders following the date of grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- If my "Separation from Service" within the meaning under Section 409A of the Internal Revenue Code ("Separation from Service") occurs before my initial restricted stock unit grant vests, the grant will be forfeited.
- If I elect to defer the settlement of my initial restricted stock unit grant:
 - o The grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be deferred and settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
 - o Dividend equivalents will accrue after the deferred stock unit grant vests and will be credited as additional deferred stock units to be settled in additional shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
 - o Receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

* * * * *

I understand that this election will be effective only if received by the Company's Legal Department on or before the date of my election or appointment.

Signature of Non-Employee Director

Date

** Because individual circumstances vary, Cisco Systems, Inc. cannot provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential election.*

**NON-EMPLOYEE DIRECTOR ELECTION UNDER THE
CISCO SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN
INITIAL EQUITY AWARD**

I, _____, being a prospective newly elected or appointed non-employee member of the Board of Directors of Cisco Systems, Inc. (the "Company") hereby (check one):

(i) **ELECT** or (ii) **DO NOT ELECT** to defer the settlement of my total initial restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on the date of my election or appointment in connection with my initial election or appointment as a non-employee member of the Board of Directors of the Company.

This election will be effective only if received by Cisco's Legal Department on or before the date of my election or appointment.

If I do not elect to defer the settlement of my initial restricted stock unit grant, my initial restricted stock unit grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the below described vesting date of the restricted stock unit grant.

My initial restricted stock unit grant will vest in full at the Company's Annual Meeting of Shareholders following my initial election or appointment date (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement. I understand that if my "separation from service" within the meaning of Section 409A of the Internal Revenue Code ("Separation from Service") occurs before my restricted stock unit grant vests, the grant will be forfeited.

I understand that if I elect to defer the settlement of my initial restricted stock unit grant, the grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to defer the settlement of my initial restricted stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

Signature of Non-Employee Director

Date

** Because individual circumstances vary, Cisco Systems, Inc. can not provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential elections.*

NON-EMPLOYEE DIRECTOR ELECTIONS ANNUAL RETAINER & EQUITY AWARD

ANNUAL RETAINER

The alternatives for the fiscal _____ annual retainer (anticipated to be \$75,000) for non-employee members of the Board of Directors of Cisco Systems, Inc. (the “Company”) are:

- a non-deferred cash payment (default option),
- a deferred cash payment under the Company’s Deferred Compensation Plan (the “DCP”),
- a vested stock grant under the 2005 Stock Incentive Plan (the “Plan”), and/or
- a vested deferred stock unit grant under the Plan.

If you make no elections below, you will receive your full annual retainer in non-deferred cash.

I, being a non-employee member of the Board of Directors of the Company, hereby make the below elections with respect to my annual retainer for the next year of Board service commencing at the next Annual Meeting of Shareholders. (The Election Amount must total 100%.)

Alternative	Election Amount (0% to 100%, in increments of 25%)	Election under the DCP Separation from Service
Non-Deferred Cash (default option)	% (e.g. 0%, 25%, 50%, 75% or 100%)	N/A
<u>Deferred</u> Cash under the Deferred Compensation Plan	%	I elect to receive my DCP account balance (choose <u>one</u> of the options below): ☐ as soon as practicable after my “Separation from Service” ☐ as soon as practicable in the calendar year following the calendar year of my “Separation from Service”
Vested Stock Grant	%	N/A
Vested Deferred Stock Unit Grant	%	N/A
TOTAL	100%	

I understand the following:

- If I elect to receive deferred cash under the DCP:
 - I authorize the Company to share my personal information with the third-party DCP administrator so that the DCP administrator can begin the enrollment process in order for me to make investment and beneficiary elections pursuant to the terms of the DCP.
 - I will receive my DCP account balance in a cash lump sum, taxable as ordinary income, pursuant to my election above. If I make no election, I will receive my DCP account balance as soon as practicable after my “Separation from Service” within the meaning under Section 409A of the Internal Revenue Code, which generally will be the date my service as a member of the Board of Directors of the Company terminates.
- If I elect to receive a vested stock grant, the shares will be granted on the date of the Annual Meeting of Shareholders based on the closing value of the Company’s common stock on such date (the “Fair Market Value”), the shares will be taxed as ordinary income to me based on the Fair Market Value, and I will receive the shares as soon as practicable after that date.
- If I elect to receive a vested deferred stock unit grant:
 - The deferred stock unit grant will be granted on the date of the Annual Meeting of Shareholders based on the Fair Market Value.

- The deferred stock unit grant will be settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
- Dividend equivalents will accrue on the vested deferred stock unit grant and will be credited as additional deferred stock units to be settled in additional shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
- Receipt of shares of the Company's common stock pursuant to the deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

[ANNUAL EQUITY AWARD ELECTION ON NEXT PAGE]

ANNUAL EQUITY AWARD

I further (check one) (i) ☐ **ELECT** or (ii) ☐ **DO NOT ELECT** to defer the settlement of my total annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on the date of the next Annual Meeting of Shareholders.

I understand the following:

- If I do not elect to defer the settlement of my annual restricted stock unit grant, the grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the vesting of the grant upon the completion of one year of Board service following the date of grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement.
- If my Separation from Service occurs before my annual restricted stock unit grant vests, the grant will be forfeited.
- If I elect to defer the settlement of my annual restricted stock unit grant:
 - The grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be deferred and settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
 - Dividend equivalents will accrue after the deferred stock unit grant vests and will be credited as additional deferred stock units to be settled in additional shares of the Company's common stock on, or as soon as practicable after, my Separation from Service.
 - Receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

* * * * *

I understand that these elections will be effective only if received by _____ on or before _____
[December 31, [PRECEDING YEAR]].

Signature of Non-Employee Director

Date

** Because individual circumstances vary, Cisco Systems, Inc. cannot provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential elections.*

(Effective Beginning February 2013
and Prior to December 2014)

**NON-EMPLOYEE DIRECTOR ELECTION UNDER THE
CISCO SYSTEMS, INC. 2005 STOCK INCENTIVE PLAN
ANNUAL RETAINER & EQUITY AWARD**

ANNUAL RETAINER

I, _____, being a non-employee member of the Board of Directors of Cisco Systems, Inc. (the "Company") hereby make the following election.

*Please choose (a) **or** (b) below.*

- (a) _____ I elect to receive my full annual retainer for the next year of Board service commencing at the next Annual Meeting of Shareholders in cash.
- (b) _____ I elect to receive _____% (*insert a percentage between 25% and 100%*) of my total annual retainer for the next year of Board service commencing at the next Annual Meeting of Shareholders, in the form of:

*Please choose either (i) **or** (ii) below.*

- (i) _____ fully vested shares, which will be given to me under the 2005 Stock Incentive Plan (the "Plan") on November __, 20__ based on the closing value of the Company's common stock on that date (the "Fair Market Value"); **OR**
- (ii) _____ a fully vested deferred stock unit grant which will be granted under the Plan on November __, 20__ based on the Fair Market Value.

I understand that, to the extent I do not elect to receive all or any portion of my annual retainer in the form of either (i) shares or (ii) a deferred stock unit grant, I will receive such retainer in cash on, or as soon as practicable after, the date of the Annual Meeting of Shareholders on _____, 20__. If I make no election, I will receive my full annual retainer in cash.

I understand that, if I elect to receive shares, I will receive the shares on, or as soon as practicable after, the date of the annual shareholder meeting and that my receipt of shares will be taxed as ordinary income to me based on the value of the shares on the date of grant.

I understand that, if I elect to receive a deferred stock unit grant, any such grant will be settled in shares of the Company's common stock on, or as soon as practicable after, my "separation from service" within the meaning of Section 409A of the Internal Revenue Code (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to receive a deferred stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

ANNUAL EQUITY AWARD

I further (check one) (i) **ELECT** or (ii) **DO NOT ELECT** to defer the settlement of my total annual restricted stock unit award anticipated to be granted under the 2005 Stock Incentive Plan (the "Plan") on _____, 20__ immediately following the Company's 20__ Annual Meeting of Shareholders.

If I do not elect to defer the settlement of my annual restricted stock unit grant, the above-mentioned annual restricted stock unit grant will be automatically settled in shares of the Company's common stock on, or as soon as practicable after, the vesting of the restricted stock unit grant upon the completion of one year of Board service following the date of grant (subject to acceleration in certain cases), as more fully set forth in the Stock Unit Agreement. I understand that if my "separation from service" within the meaning of Section 409A of the Internal Revenue Code ("Separation from Service") occurs before my restricted stock unit grant vests, the grant will be forfeited.

I understand that if I elect to defer the settlement of the above-mentioned annual restricted stock unit grant, the grant will not be settled in shares of the Company's common stock upon the above-described vesting date, but instead will be settled in shares of the Company's common stock on, or as soon as practicable after, my Separation from Service (which generally will be the date my service as a member of the Board of Directors of the Company terminates).

I understand that if I elect to defer the settlement of my annual restricted stock unit grant, dividends or dividend equivalents will not accrue during the deferral period.

I understand that my receipt of shares of the Company's common stock pursuant to any deferred stock unit grant will be taxed as ordinary income to me based on the value of the shares on the date the deferred stock unit grant is settled and I receive shares of the Company's common stock.

I understand that these elections will be effective only if received by _____ on or before _____ [December 31, [PRECEDING YEAR]].

Signature of Non-Employee Director

Date

** Because individual circumstances vary, Cisco Systems, Inc. can not provide tax advice and you should consult with your own tax advisor regarding the income tax consequences of your potential elections.*

CISCO SYSTEMS, INC.
VESTING ACCELERATION POLICY
FOR
DEATH AND TERMINAL ILLNESS
AS
AMENDED JANUARY 27, 2016

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all outstanding equity awards issued under any equity plan maintained by Cisco or any Cisco subsidiary, including outstanding equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by any applicable law, rule or regulation or would result in adverse legal or tax consequences thereunder.

For purposes of this policy:

- the value of stock options and stock appreciation rights is based on the difference between the exercise price of the equity awards and the closing price of Cisco’s stock on the date of the employee’s death or terminal illness, as applicable, or if such day is not a trading day, the last trading day prior to the date of death or terminal illness, as applicable;
- the value of stock grants, stock units, and unvested shares previously acquired pursuant to equity awards (such shares are referred to herein as “unvested equity award shares”) is based on the difference between the purchase price, if any, and the closing price of Cisco’s stock on the date of the employee’s death or terminal illness, as applicable, or if such day is not a trading day, the last trading day prior to the date of death or terminal illness, as applicable;
- “unvested equity award shares” includes outstanding and unvested performance-based restricted stock or stock unit awards and the accelerated vesting of such awards will be deemed to occur at target levels, subject to the specified limits below; and
- to the extent the vesting of any performance-based restricted stock or stock unit award is accelerated pursuant to this policy, the award will be settled upon the death or terminal illness of an employee, as the case may be, except that if the applicable award is subject to Section 409A of the Internal Revenue Code (“Code Section 409A”) and such terminal illness does not qualify as a “Disability” within the meaning of Code Section 409A, then the award will instead be settled on the fixed payment date following the end of the performance period on which the applicable award is normally paid out.

ACCELERATION UPON DEATH OF EMPLOYEE

Upon the death of an employee, Cisco will accelerate the vesting of the employee’s outstanding equity awards and any unvested equity award shares up to a specified limit based on the value of the equity awards and/or shares on the date of death. The limit on the amount of accelerated vesting is the greater of: (a) one-hundred percent (100%) of the unvested equity awards and/or unvested equity award shares up to a total value of \$10 million; or (b) up to one year of vesting from the date of death as to all unvested equity awards and/or unvested equity award shares. For example, if an employee held unvested options for 100,000 shares with an exercise price of \$1 which would vest in four annual installments of 25,000 shares, and the closing price of Cisco’s stock on the date of the employee’s death was \$101, all 100,000 of the shares would become vested (100,000 shares x \$100 (the difference between \$101 and \$1) = \$10,000,000).

ACCELERATION UPON TERMINAL ILLNESS OF EMPLOYEE

Upon the terminal illness of an employee, Cisco will accelerate the vesting of the employee’s outstanding equity awards and any unvested equity award shares up to a specified limit based on the value of the equity awards and/or shares on the date of the terminal illness. An employee will be considered terminally ill upon the approval by Cisco’s employee life insurance provider of the accelerated life insurance benefit which indicates 12 months or less to live. When a request is made to accelerate the vesting of an employee’s outstanding equity awards and early life insurance payouts are not also requested, an employee will be considered terminally ill upon the approval by Cisco’s external, independent medical review vendor (which may include Cisco’s employee life insurance provider). The date of terminal illness will be the date the determination is made by Cisco’s employee life insurance provider or Cisco’s external, independent medical review vendor. The limit on the amount of accelerated vesting is the greater of: (a) one-hundred percent (100%) of the unvested equity awards and/or unvested equity award shares up to a total value of \$10 million; or (b) up to one year of vesting from the date of the terminal illness as to all unvested equity awards and/or unvested equity award shares. For example, if an employee holds unvested options for 100,000 shares with an exercise price of \$1 which would vest in four annual installments of 25,000 shares, and the closing price of Cisco’s stock on the date that the employee is determined to be terminally ill was \$101, all 100,000 of the shares would become vested (100,000 shares x \$100 (the difference between \$101 and \$1) = \$10,000,000).

CISCO SYSTEMS, INC.
VESTING POLICY
FOR
LEAVES OF ABSENCE
AS AMENDED JANUARY 27, 2016

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all outstanding equity awards issued under any equity plan maintained Cisco or any Cisco subsidiary, including outstanding equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by any applicable law, rule or regulation or would result in adverse legal or tax consequences thereunder.

90 DAYS CONTINUED VESTING ON AUTHORIZED LEAVES OF ABSENCE

The exercise or vesting schedule in effect for any outstanding equity award and any unvested shares previously acquired pursuant to any equity award (such shares referred to herein as “unvested equity award shares”) held by an employee at the time of the employee’s commencement of an authorized leave of absence shall continue to vest and/or become exercisable in accordance with the vesting schedule set forth in the applicable equity award agreement during the period the employee remains on such authorized leave of absence; provided that, in no event shall any employee be entitled to vest for more than 90 days of authorized leaves of absence during any rolling 12-month period (the “LOA Limit”).

If an employee exceeds the LOA Limit during any rolling 12-month period, the unvested equity award shares held by such an employee shall be suspended immediately following the expiration of the LOA Limit and the equity award and any unvested equity shares shall not vest and/or become exercisable for any additional shares during the remainder of the rolling 12-month period.

CISCO SYSTEMS, INC.
TRANSFER POLICY
FOR
DIVORCE

Unless and until the Compensation & Management Development Committee of the Board of Directors of Cisco Systems, Inc. determines otherwise, the following policy shall be applied to all equity awards issued under any equity plan maintained Cisco or any Cisco subsidiary, including equity awards and/or equity plans assumed by Cisco in connection with its acquisition of companies, and held by any employee of Cisco or any Cisco subsidiary (each such award shall be referred to herein as an “equity award”), except to the extent that the application of such policy would be prohibited by the applicable equity plan, equity award agreement or any applicable law, rule or regulation.

PROHIBITION ON TRANSFER OF EQUITY AWARDS UPON DIVORCE

Except as provided below, equity awards and any unvested shares acquired pursuant to equity awards shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor’s process in connection with the divorce of the holder of such equity award or shares. Equity awards and any unvested shares acquired pursuant to equity awards may be transferred by an executive officer of Cisco only to the extent required by a domestic relations order, as defined by the Internal Revenue Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder, in settlement of marital property rights by any court of competent jurisdiction.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles H. Robbins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2016

/s/ Charles H. Robbins

Charles H. Robbins
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kelly A. Kramer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cisco Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2016

/s/ Kelly A. Kramer

Kelly A. Kramer

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles H. Robbins , do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended January 23, 2016 , as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 18, 2016

/s/ Charles H. Robbins

Charles H. Robbins

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kelly A. Kramer , do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended January 23, 2016 , as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 18, 2016

/s/ Kelly A. Kramer

Kelly A. Kramer

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)