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August 13, 2009

Mr. Russell G. Golden
Chairman, Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

VIA EMAIL: director@fasb.org

Re: File Reference No. EITF 08-01 & 09-03

Dear Mr. Golden:

Cisco Systems, Inc. ("Cisco", "Company") appreciates the opportunity to comment on the proposed Issues No. 08-1 *Revenue Arrangements with Multiple Deliverables* ("Issue 08-1") and No. 09-3 *Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements* ("Issue 09-3"). Cisco is the leading designer, manufacturer and seller of Internet Protocol based networking and other products and services related to the communications and IT industry.

Substantially all of the hardware products we sell include software which is embedded on the device which is more than incidental but for which software is not the primary deliverable (i.e. "software-enabled devices"). Consequently, most of our revenue transactions are currently accounted for under AICPA Statement of Position 97-2 *Software Revenue Recognition* ("SOP 97-2"), many of which are in the form of multiple element arrangements as we often bundle our hardware and service offerings. We believe that SOP 97-2 does not consistently align the accounting for transactions with their underlying economic substance and, consequently, does not provide users with decision-useful information. We are highly supportive of both of these Issues, as we believe that they will allow the appropriate alignment of the accounting with the economic substance of transactions which is critical both to preparers and users of financial statements. These Issues are highly critical to a large number of companies in our industry and it is important that the Task Force reach consensus on these Issues expeditiously as they can quickly address numerous revenue recognition issues that currently exist in the high-technology industry.

Overview and Summary

Issues 09-3 and 08-1 are very important steps in improving the accounting for revenue recognition for Cisco and other companies who enter into revenue arrangements for tangible products containing software where the hardware and software components work in an integrated architecture to deliver the tangible products' functionalities. The current accounting under SOP 97-2 often times results in financial reporting that is not reflective of the underlying economics of a transaction which can materially impact a user's ability to obtain decision-useful information as well as a company's ability to optimize its operations.

For example, there are situations where the transaction is substantially complete both from the vendor and customer's perspectives but all of the revenue from the sale must be deferred due to lack of Vendor Specific Objective Evidence ("VSOE") for a specific undelivered element. In addition, there are numerous operational situations where companies suboptimize their go-to-market strategies, including new product introductions and acquisitions. For instance, companies may exclude a key element from a particular arrangement due to the lack of VSOE on that element, even though it may be in the best interest of customers and, ultimately, of shareholders. In addition, companies often times are unable to integrate acquisitions losing critical synergies due to the lack of VSOE. In these situations, it is often the case that vendor objective evidence or an appropriate estimated selling price is available but is unable to be used by preparers under SOP 97-2. The proposed Issues address these problems appropriately and would significantly improve the accounting for multiple-deliverable arrangements by better reflecting the economic substance of sales transactions. For these reasons, we fully support the Task Force's efforts on this topic and the resulting proposed Issues.

It is important that the Task Force is able to reach consensus on the Issues expeditiously to allow companies to address the concerns with SOP 97-2 in a timely manner. We believe these Issues represent significant improvements that are directionally aligned with the Joint FASB and IASB Preliminary Views document and, as such, we urge the Task Force to move forward with this guidance and not wait for eventual completion of the joint revenue recognition project.

As stated in our letter dated January 30, 2009, in response to the Task Force's request for comments on the previously exposed Issue 08-1, we believe that the original scope of Issue 08-1 should be expanded to include software-enabled devices to achieve the objectives aligning the accounting and economics of sales transactions. Based on extensive discussions that we have had with peer companies, we believe that the situation where SOP 97-2 is applied because software is more than incidental, but the economic transaction's primary deliverable is the hardware product, is common across many software-enabled device companies. The frequency of these types of instances has grown significantly over time with technological innovations. We believe this expanded scope was not contemplated at the time SOP 97-2 was issued and has subsequently resulted in a number of unintended consequences impacting hardware transactions. In addition, as SOP 97-2 was initially contemplated for software transactions, there are various business practices that it did not anticipate that directly relate to the development, sales and marketing activities of typical software-enabled device transactions, particularly as technology has evolved tremendously since SOP 97-2 was introduced. Changing the scope of SOP 97-2 to exclude more software-enabled device companies, as is provided for in Issue 09-3, would provide a timely and very necessary solution to existing issues that numerous hardware companies face today. This would also improve comparability of financial results between software-enabled device companies currently following SOP 97-2 and other companies that will be following the guidance proposed in Issue 08-1, as well as those applying IFRS.

We have assessed our ability to operationalize these Issues in our business and have concluded that we can implement the required changes. The benefits to our operations from the application of the Issues far outweigh the implementation costs. We have also discussed these potential changes with certain of our major investors, and we believe based on those discussions that these changes will provide more decision-useful information to the users of our financial statements and are aligned with their expectations of our financial reporting and generally of hardware transactions.

We have only identified one area where we believe further editing of Issue 09-3 is required. The term "always" is used in paragraph 5a and is expressed as an absolute. We recommend that the wording be more consistent with that of a principle, which is what we believe the Task Force is intending to convey. We prefer an approach where the guidance refers to tangible products *predominantly* containing the software components when the product is sold. This would also be better aligned with the rationale and explanations given in Example 5 of that Issue for determining that the network equipment in that example is outside the scope of SOP 97-2.

Please refer to the Appendix for our detailed responses to the questions raised by the Task Force.

We thank the Task Force for the opportunity to provide our comments on these critical Issues and appreciate the Task Force's consideration of the views we have provided. If you have any questions regarding our letter or would like to discuss our views in further detail, please feel free to contact me directly at (408) 526 – 7815.

Sincerely,

Prat Bhatt

Prat Bhatt
Vice President, Corporate Controller and
Principal Accounting Officer
Cisco Systems, Inc.

Appendix: Detailed responses to Questions 1 to 11 of the Exposure Drafts

Appendix: Detailed responses to Questions 1 to 11 of the Exposure Drafts

1. Do you agree with the Task Force's decision to address this Issue considering the potential overlap between this Issue (08-1) and the FASB and IASB joint project on revenue recognition?

Response:

We agree with this decision. We believe that due to the number of problems in practice for transactions involving software-enabled devices, the timely issuance of Issue 08-1 and 09-3 is a significant step in resolving many of these problems. Issues 08-1 and 09-3 represent a significant incremental improvement that is directionally aligned with the Joint FASB and IASB Preliminary Views document, and we urge the Task Force to move forward with these Issues and not wait for eventual completion of the joint revenue recognition project.

2. Do you agree with the Task Force's decision to eliminate the residual method of allocation and require a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables in the arrangement using the relative-selling price method? Is the relative-selling price method operational and does it provide a principle that could be applied consistently?

Response:

We agree with this decision. We request clarification on "value to the customer on a standalone basis" discussed in paragraph 9 a. We believe the intent is to establish that the item has stand alone value and is not a test of recoverability. If this is the case, we believe that stand alone value exists if the item could be sold in a hypothetical transaction to a third party for its intended purpose. We believe this view is consistent with many of the accounting firms' views on the separability criteria that exist in Issue 00-21. We believe this clarification will be helpful in ensuring consistent practice around the separability criteria. We have assessed the relative selling price method and we believe that we can operationalize it. We believe that it is a principle that can be consistently applied.

3. Issue 08-1 significantly expands the disclosures that are required relating to multiple-deliverable revenue arrangements (including those arrangements affected by Issue 09-3).

a. **Do you agree that the disclosures in the consensus-for-exposure would provide useful information for financial statement users? If you do not believe those**

disclosures would provide useful information, what disclosures should be required and why would they be useful?

b. **Are there additional disclosures that would provide useful information for financial statement users relating to multiple-deliverable revenue arrangements that the Task Force should consider requiring?**

Response:

We agree with the overall objectives of the disclosure requirements and we believe they will provide useful information to the users of the financial statements. We are not aware of any additional disclosures that would provide useful information to users of the financial statements.

4. The Task Force discussed whether these disclosures should also include the effects of changes in selling prices, allocation methods, or assumptions if they have a significant affect on profit margins but decided not to require such disclosure. Should the disclosure requirements of Issue 08-1 be expanded to include disclosure of the effects of changes in selling prices, allocation methods, or assumptions on profit margins, if significant?

Response:

We agree with this decision not to further expand the disclosure requirements of Issue 08-1, as we believe that the overall disclosure requirements of Issue 08-1 are quite robust as currently drafted.

5. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

Response:

We agree with this decision.

6. The consensus-for-exposure requires an entity to disclose in the year Issue 08-1 and/or Issue 09-3 are adopted, the amount of revenue recognized under those Issues and the amount of revenue that would have been recognized had the entity applied Issue 00-21 and/or SOP 97-2. The Task Force believes that this information is necessary to describe the affect of the adoption of these Issues to financial statement users. Do you agree with that decision?

Response:

We agree with this decision.

7. Do you agree with the Task Force's decision to address this Issue considering potential overlap between this Issue and the FASB and IASB joint project on revenue recognition?

Response:

We agree with this decision. As stated previously, we view the existing problems in practice with SOP 97-2 to be critical such that the more timely proposed Issues are a better alternative to solving these problems compared to waiting for eventual completion of the FASB and IASB joint revenue recognition project. We agree with the Task Force's views as stated in the Notice to Recipients of the Draft EITF Abstracts that these Issues are generally consistent with the current direction of the FASB's project and they would result in an improvement to financial reporting before the FASB completes its project and it becomes effective, which may take several more years.

8. Do you agree with the Task Force's decision to modify the scope of SOP 97-2 to address software enabled devices rather than to address broadly the measurement and separation criteria within SOP 97-2?

Response:

We agree with this decision. We view the existing problems in practice with SOP 97-2 to be critical such that the more timely proposed issuance of the Issues are a better alternative to solving these problems compared to waiting for broad revision of the measurement and separation criteria within SOP 97-2, which we believe would be highly complex and ultimately would result in guidance which is not sufficiently timely to address critical issues that we face today.

9. Do you agree that the scope modification of Issue 09-3 is operational and can be applied consistently? If not, why not?

Response:

We have assessed our ability to implement and have concluded that, although the changes in Issue 09-3 are significant for companies that follow SOP 97-2, we believe it can be made operational and applied consistently. As discussed above, we suggest that the term "always" as it is used in paragraph 5a be changed to "predominantly". This would be more consistent with the notion of a general principle of tangible products containing software components and non-software components functioning together to deliver the tangible product's essential functionality, rather than a rule. This would also be better aligned with the rationale and explanations given in Example 5 for determining that the network equipment in that example is outside the scope of SOP 97-2.

10. If your answer to Question 10 (this should be 9 instead of 10) is no, is there a better way to modify the scope of SOP 97-2 to improve financial reporting for software enabled devices while retaining the use of SOP 97-2 for software transactions?

Response:

See our response to Question 9 above. We believe the scope modifications expressed in Issue 09-3, as currently drafted, are well worded and can be operationalized.

11. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

Response:

We agree with this decision.