JUNIPER NETWORKS INC
Form 10-Q
May 08, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2013
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from_________ to_________

Commission file number: 001-34501

JUNIPER NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0422528
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1194 North Mathilda Avenue	
Sunnyvale, California	94089
(Address of principal executive offices)	(Zip code)
(408) 745-2000	
(Registrant's telephone number, including area code)	

____
(Former name, former address and former fiscal year, if changed since last report)

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 filings requirements for the past 90 days. Yes x No o
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 x No o
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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 506,253,607 shares of the Company's Common Stock, par value $0.00001, outstanding as of May 3, 2013.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Juniper Networks, Inc.
Condensed Consolidated Statements of Operations
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net revenues:		
Product	$781.8	$771.9
Service	277.4	260.6
Total net revenues	1,059.2	1,032.5
Cost of revenues:		
Product	278.2	280.6
Service	110.2	117.8
Total cost of revenues	388.4	398.4
Gross margin	670.8	634.1
Operating expenses:		
Research and development	262.2	269.6
Sales and marketing	255.2	257.7
General and administrative	47.8	54.7
Amortization of purchased intangible assets	1.2	1.2
Restructuring charges	7.0	2.0
Acquisition and litigation charges	10.4	1.2
Total operating expenses	583.8	586.4
Operating income	87.0	47.7
Other expense, net	(10.1)	(24.4)
Income before income taxes	76.9	23.3
Income tax (benefit) provision	(14.1)	7.0
Net income	$91.0	$16.3
Net income per share:		
Basic	$0.18	$0.03
Diluted	$0.18	$0.03
Shares used in computing net income per share:		
Basic	504.7	527.2
Diluted	512.7	533.7

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	$91.0	$16.3
Other comprehensive (loss) income, net of tax:		
Available-for-sale securities:		
Change in unrealized (losses) gains on available-for-sale securities	(0.2)	3.1
Reclassification adjustment for realized net gains on available-for-sale securities included in net income	(0.4)	(0.3)
Net change in unrealized (losses) gains on available-for-sale securities	(0.6)	2.8
Cash flow hedges:		
Change in unrealized (losses) gains on cash flow hedges	(2.1)	6.0
Reclassification adjustment for realized (gains) losses on cash flow hedges included in net income	(1.4)	3.5
Net change in unrealized (losses) gains on cash flow hedges	(3.5)	9.5
Change in foreign currency translation adjustments	(5.8)	4.6
Other comprehensive (loss) income, net of tax	(9.9)	16.9
Comprehensive income	$81.1	$33.2

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Condensed Consolidated Balance Sheets
(In millions, except par values)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$2,043.7	$2,407.8
Short-term investments	613.1	441.5
Accounts receivable, net of allowances	532.6	438.4
Deferred tax assets, net	151.4	172.6
Prepaid expenses and other current assets	199.2	140.4
Total current assets	3,540.0	3,600.7
Property and equipment, net	839.0	811.9
Long-term investments	1,015.2	988.1
Restricted cash and investments	94.4	106.4
Purchased intangible assets, net	131.2	128.9
Goodwill	4,057.8	4,057.8
Other long-term assets	152.8	138.3
Total assets	$9,830.4	$9,832.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$223.8	$209.3
Accrued compensation	204.5	279.3
Accrued warranty	29.4	29.7
Deferred revenue	774.7	693.5
Other accrued liabilities	191.3	210.2
Total current liabilities	1,423.7	1,422.0
Long-term debt	999.2	999.2
Long-term deferred revenue	206.0	229.9
Long-term income taxes payable	87.1	112.4
Other long-term liabilities	58.0	69.1
Total liabilities	2,774.0	2,832.6
Commitments and contingencies		
Juniper Networks stockholders' equity:		
Convertible preferred stock, $0.00001 par value; 10.0 shares authorized; none issued and outstanding	—	—
Common stock, $0.00001 par value; 1,000.0 shares authorized; 510.9 shares and 508.4 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	—	—
Additional paid-in capital	9,923.1	9,905.7
Accumulated other comprehensive (loss) income	(5.2)	4.7
Accumulated deficit	(2,862.0)	(2,911.4)
Total Juniper Networks stockholders' equity	7,055.9	6,999.0
Noncontrolling interest	0.5	0.5
Total stockholders' equity	7,056.4	6,999.5
Total liabilities and stockholders' equity	$9,830.4	$9,832.1

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$91.0	$16.3
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Share-based compensation	49.9	65.0
Depreciation and amortization	51.6	43.4
Restructuring charges	7.7	2.0
Deferred income taxes	15.7	(13.9)
(Gain) loss on investments, net	(2.3)	14.0
Excess tax benefits from share-based compensation	(1.1)	(4.3)
Other non-cash charges	0.3	0.2
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(94.3)	126.5
Prepaid expenses and other assets	(53.6)	(22.3)
Accounts payable	9.1	(126.8)
Accrued compensation	(75.2)	(15.4)
Income taxes payable	(38.4)	(3.8)
Other accrued liabilities	(26.5)	(11.2)
Deferred revenue	57.2	32.6
Net cash (used in) provided by operating activities	(8.9)	102.3
Cash flows from investing activities:		
Purchases of property and equipment	(71.5)	(82.0)
Purchases of trading investments	(1.5)	(2.7)
Purchases of available-for-sale investments	(582.2)	(371.2)
Proceeds from sales of available-for-sale investments	331.8	231.4
Proceeds from maturities of available-for-sale investments	54.0	222.8
Payments for business acquisitions, net of cash and cash equivalents acquired	(10.0)	(90.5)
Proceeds from sales of privately-held investments	1.6	—
Purchases of privately-held investments	(7.3)	(1.1)
Net cash used in investing activities	(285.1)	(93.3)
Cash flows from financing activities:		
Proceeds from issuance of common stock	65.0	37.8
Purchases and retirement of common stock	(132.5)	(56.1)
Payment for capital lease obligation	(1.4)	—
Change in customer financing arrangements	(2.3)	7.7
Excess tax benefits from share-based compensation	1.1	4.3
Net cash used in financing activities	(70.1)	(6.3)
Net (decrease) increase in cash and cash equivalents	(364.1)	2.7
Cash and cash equivalents at beginning of period	2,407.8	2,910.4
Cash and cash equivalents at end of period	$2,043.7	$2,913.1

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Condensed Consolidated Balance Sheet as of December 31, 2012, is derived from the audited Consolidated Financial Statements for the year ended December 31, 2012. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or any future period. The information included in this Quarterly Report on Form 10-Q ("Report") should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," "Quantitative and Qualitative Disclosures About Market Risk," and the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Certain amounts in the prior year Condensed Consolidated Financial Statements have been reclassified to conform to the current year presentation.

The preparation of the financial statements and related disclosures in accordance with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and the accompanying notes. Actual results could differ materially from those estimates under different assumptions or conditions.

In the first quarter of 2013, the Company consolidated operational oversight and management of all security products within the Software Solutions Division ("SSD") segment. As a result of this product realignment, security products previously reported in the Platform Systems Division ("PSD") segment (including the Branch SRX, Branch Firewall, and J Series product families) are now reported in the SSD segment. The Company reclassified the segment data for the prior period to conform to the current period's presentation. This change did not impact previously reported consolidated net revenues, operating income, net income, and net income per share. See Note 13, Segments, for further discussion of the Company's product realignment.

The Company previously owned a 60 percent interest in a joint venture with Nokia Siemens Networks B.V. ("NSN"). Given the Company's majority ownership interest in the joint venture, the accounts of the joint venture were consolidated with the accounts of the Company, and a noncontrolling interest was recorded for the noncontrolling investor's interests in the net assets and operations of the joint venture. In July 2011, NSN and the Company entered into an agreement to cease operation of and dissolve the joint venture and subsequently NSN assumed the activities of the joint venture.

Note 2. Summary of Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies as compared to the accounting policies described in Note 2, Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which amends FASB Accounting Standards Codification ("ASC") 220, Comprehensive Income to include the reporting of reclassifications from accumulated other comprehensive income to the respective line items in net income. The Company adopted ASU 2013-02 in the first quarter of 2013 and presented the effects within the Condensed Consolidated Statements of Comprehensive Income and the accompanying notes.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210)—Disclosures About Offsetting Assets and Liabilities ("ASU 2011-11"), and in January 2013 issued ASU No. 2013-01, Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities ("ASU 2013-01"). These standards create new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Disclosures of certain instruments subject to enforceable master netting arrangements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. The Company adopted these standards during the first quarter of 2013 and presented the effects in the accompanying notes.

Note 3. Business Combinations

During the three months ended March 31, 2013, the Company completed a business combination for approximately $10.0 million in cash consideration, of which $0.1 million was allocated to net tangible assets acquired and $9.9 million to intangible assets. The Company's consolidated financial statements include the operating results of this business combination from the date of acquisition, and the inclusion of those results were not material to its consolidated balance sheets and results of operations.

The Company recognized $0.1 million and $1.2 million of acquisition-related costs during the three months March 31, 2013 and 2012, respectively. These acquisition-related charges were expensed in the period incurred and reported as a component of acquisition and litigation charges in the Company's Condensed Consolidated Statements of Operations.

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Cash Equivalents and Investments

Investments in Available-for-Sale and Trading Securities

The following tables summarize the Company's unrealized gains and losses and fair value of investments designated as available-for-sale and trading securities as of March 31, 2013 and December 31, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of March 31, 2013				
Cash equivalents:				
Certificate of deposit	$0.3	$—	$—	$0.3
Money market funds	749.6	—	—	749.6
U.S. government securities	6.0	—	—	6.0
Total cash equivalents	755.9	—	—	755.9
Restricted investments:				
Money market funds	89.5	—	—	89.5
Mutual funds	2.9	0.1	—	3.0
Total restricted investments	92.4	0.1	—	92.5
Fixed income securities:				
Asset-backed securities	234.7	0.2	(0.1)	234.8
Certificates of deposit	44.7	—	—	44.7
Corporate debt securities	614.0	2.0	(0.3)	615.7
Foreign government debt securities	15.8	—	—	15.8
Government-sponsored enterprise obligations	270.4	0.2	—	270.6
U.S. government securities	430.1	0.2	—	430.3
Total fixed income securities	1,609.7	2.6	(0.4)	1,611.9
Publicly-traded equity securities	2.9	—	(0.3)	2.6
Total available-for-sale securities	2,460.9	2.7	(0.7)	2,462.9
Trading securities in mutual funds(*)	13.8	—	—	13.8
Total	$2,474.7	$2.7	$(0.7)	$2,476.7
Reported as:				
Cash equivalents	$755.9	$—	$—	$755.9
Restricted investments	92.4	0.1	—	92.5
Short-term investments	613.0	0.4	(0.3)	613.1
Long-term investments	1,013.4	2.2	(0.4)	1,015.2
Total	$2,474.7	$2.7	$(0.7)	$2,476.7

(*) Balance includes the Company's non-qualified deferred compensation plan assets.

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2012				
Cash equivalents:				
Certificate of deposit	$0.6	$—	$—	$0.6
Commercial paper	10.8	—	—	10.8
Government-sponsored enterprise obligations	6.1	—	—	6.1
Money market funds	1,042.6	—	—	1,042.6
U.S. government securities	165.8	—	—	165.8
Total cash equivalents	1,225.9	—	—	1,225.9
Restricted investments:				
Money market funds	102.6	—	—	102.6
Mutual funds	2.9	0.1	—	3.0
Total restricted investments	105.5	0.1	—	105.6
Fixed income securities:				
Asset-backed securities	226.2	0.3	(0.1)	226.4
Certificates of deposit	41.9	—	—	41.9
Commercial paper	11.6	—	—	11.6
Corporate debt securities	533.4	2.3	(0.1)	535.6
Foreign government debt securities	5.0	—	—	5.0
Government-sponsored enterprise obligations	264.6	0.3	—	264.9
U.S. government securities	328.6	0.1	—	328.7
Total fixed income securities	1,411.3	3.0	(0.2)	1,414.1
Publicly-traded equity securities	3.0	—	(0.1)	2.9
Total available-for-sale securities	2,745.7	3.1	(0.3)	2,748.5
Trading securities in mutual funds(*)	12.6	—	—	12.6
Total	$2,758.3	$3.1	$(0.3)	$2,761.1
Reported as:				
Cash equivalents	$1,225.9	$—	$—	$1,225.9
Restricted investments	105.5	0.1	—	105.6
Short-term investments	441.3	0.3	(0.1)	441.5
Long-term investments	985.6	2.7	(0.2)	988.1
Total	$2,758.3	$3.1	$(0.3)	$2,761.1

(*) Balance includes the Company's non-qualified deferred compensation plan assets.

The following table presents the maturities of the Company's total fixed income securities as of March 31, 2013 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	$596.3	$0.4	$—	$596.7

Due between one and five years	1,013.4	2.2	(0.4)	1,015.2
Total	$1,609.7	$2.6	$(0.4)	$1,611.9

The Company had 134 and 98 investments in unrealized loss positions as of March 31, 2013 and December 31, 2012, respectively. The gross unrealized losses related to these investments were primarily due to changes in market interest rates and stock prices. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company aggregates its investments by category and length of time the securities have been in a continuous

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

unrealized loss position to facilitate its evaluation. For the available-for-sale debt securities that have unrealized losses, the Company evaluates whether it (i) does not intend 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. For available-for-sale equity securities that have unrealized losses, the Company evaluates whether there is an indication of other-than-temporary impairments. This determination is based on several factors, including 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. During the three months ended March 31, 2013 and 2012, the Company did not recognize other-than-temporary impairments associated with these investments.

There were no material gross realized gains or losses from available-for-sale and trading securities during the three months ended March 31, 2013 and 2012. Realized gains and losses are determined based on the specific identification method.

The following tables present the Company's available-for-sale investments that were in an unrealized loss position as of March 31, 2013 and December 31, 2012 (in millions):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2013						
Fixed income securities:						
Asset-backed securities	$112.5	$(0.1)	$—	$—	$112.5	$(0.1)
Corporate debt securities	180.8	(0.3)	—	—	180.8	(0.3)
Foreign government debt securities	15.1	—	—	—	15.1	—
Government-sponsored enterprise obligations	85.3	—	—	—	85.3	—
U.S. government securities	10.0	—	—	—	10.0	—
Total fixed income securities	403.7	(0.4)	—	—	403.7	(0.4)
Publicly-traded equity securities	2.6	(0.3)	—	—	2.6	(0.3)
Total available-for sale securities	$406.3	$(0.7)	$—	$—	$406.3	$(0.7)

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2012						
Fixed income securities:						
Asset-backed securities(*)	$55.1	$(0.1)	$0.1	$—	$55.2	$(0.1)
Certificates of deposit	0.3	—	—	—	0.3	—
Commercial paper	10.0	—	—	—	10.0	—
Corporate debt securities	116.0	(0.1)	—	—	116.0	(0.1)
Government-sponsored enterprise obligations	30.0	—	—	—	30.0	—
U.S. government securities	68.2	—	—	—	68.2	—
Total fixed income securities	279.6	(0.2)	0.1	—	279.7	(0.2)
Publicly-traded equity securities	2.9	(0.1)	—	—	2.9	(0.1)
Total available-for sale securities	$282.5	$(0.3)	$0.1	$—	$282.6	$(0.3)

(*) Balance greater than 12 months includes investments that were in an immaterial unrealized loss position as of December 31, 2012.

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Restricted Cash and Investments

The Company classifies cash and investments designated as available-for-sale securities as restricted cash and investments on its Condensed Consolidated Balance Sheets for: (i) amounts held in escrow accounts, as required by certain acquisitions completed between 2005 and 2013; (ii) the India Gratuity Trust and Israel Retirement Trust, which cover statutory severance obligations in the event of termination of any of the Company's India and Israel employees, respectively; and (iii) the Directors and Officers ("D&O") indemnification trust.

The following table summarizes the Company's cash and investments that are classified as restricted cash and investments in the Condensed Consolidated Balance Sheets (in millions):

	As of March 31, 2013	December 31, 2012
Restricted cash	$1.9	$0.8
Restricted investments	92.5	105.6
Total restricted cash and investments	$94.4	$106.4

Privately-Held Investments

As of March 31, 2013 and December 31, 2012, the carrying values of the Company’s privately-held investments of $39.2 million and $32.0 million, respectively, were included in other long-term assets in the Condensed Consolidated Balance Sheets.

The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company adjusts its privately-held investments for any impairment if the fair value is less than the carrying value of the respective assets on an other-than-temporary basis.

During the three months ended March 31, 2012, the Company determined that certain privately-held investment were other-than-temporarily impaired, which resulted in impairment charges of $14.0 million and were recorded within other expense, net in the Condensed Consolidated Statements of Operations. There were no such charges during the three months ended March 31, 2013.

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements
Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following tables provide a summary of assets and liabilities measured at fair value on a recurring basis and as reported in the Condensed Consolidated Balance Sheets (in millions):

	Fair Value Measurements at March 31, 2013 Using:			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Assets measured at fair value:				
Available-for-sale securities:				
Asset-backed securities	$—	$234.8	$—	$234.8
Certificate of deposit	—	45.0	—	45.0
Corporate debt securities	—	615.7	—	615.7
Foreign government debt securities	—	15.8	—	15.8
Government-sponsored enterprise obligations	265.6	5.0	—	270.6
Money market funds (1)	839.1	—	—	839.1
Mutual funds (2)	3.0	—	—	3.0
Publicly-traded equity securities	2.6	—	—	2.6
U.S. government securities	237.2	199.1	—	436.3
Total available-for-sale securities	1,347.5	1,115.4	—	2,462.9
Trading securities in mutual funds (3)	13.8	—	—	13.8
Derivative assets:				
Foreign exchange contracts	—	1.6	—	1.6
Total assets measured at fair value	$1,361.3	$1,117.0	$—	$2,478.3
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	$—	$1.1	$—	$1.1
Total liabilities measured at fair value	$—	$1.1	$—	$1.1
Total assets measured at fair value, reported as:				
Cash equivalents	$749.6	$6.3	$—	$755.9
Restricted investments	92.5	—	—	92.5
Short-term investments	262.5	350.6	—	613.1
Long-term investments	256.7	758.5	—	1,015.2
Prepaid expenses and other current assets	—	1.6	—	1.6
Total assets measured at fair value	$1,361.3	$1,117.0	$—	$2,478.3
Total liabilities measured at fair value, reported as:				
Other accrued liabilities	$—	$1.1	$—	$1.1
Total liabilities measured at fair value	$—	$1.1	$—	$1.1

(1) Balance includes \$89.5 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisition-related escrows.

(2) Balance relates to the restricted investments measured at fair market value of the Company's India Gratuity Trust.

(3) Balance relates to investments measured at fair value related to the Company's non-qualified deferred compensation plan assets.

Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

	Fair Value Measurements at December 31, 2012 Using:			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Assets measured at fair value:				
Available-for-sale securities:				
Asset-backed securities	$—	$226.4	$—	$226.4
Certificate of deposit	—	42.5	—	42.5
Commercial paper	—	22.4	—	22.4
Corporate debt securities	—	535.6	—	535.6
Foreign government debt securities	—	5.0	—	5.0
Government-sponsored enterprise obligations	254.9	16.1	—	271.0
Money market funds [(1)]	1,145.2	—	—	1,145.2
Mutual funds [(2)]	1.0	2.0	—	3.0
Publicly-traded equity securities	2.9	—	—	2.9
U.S. government securities	275.9	218.6	—	494.5
Total available-for-sale securities	1,679.9	1,068.6	—	2,748.5
Trading securities in mutual funds [(3)]	12.6	—	—	12.6
Derivative assets:				
Foreign exchange contracts	—	3.5	—	3.5
Total assets measured at fair value	$1,692.5	$1,072.1	$—	$2,764.6
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	$—	$0.1	$—	$0.1
Total liabilities measured at fair value	$—	$0.1	$—	$0.1
Total assets measured at fair value, reported as:				
Cash equivalents	$1,048.7	$177.2	$—	$1,225.9
Restricted investments	103.6	2.0	—	105.6
Short-term investments	224.4	217.1	—	441.5
Long-term investments	315.8	672.3	—	988.1
Prepaid expenses and other current assets	—	3.5	—	3.5
Total assets measured at fair value	$1,692.5	$1,072.1	$—	$2,764.6
Total liabilities measured at fair value, reported as:				
Other accrued liabilities	$—	$0.1	$—	$0.1
Total liabilities measured at fair value	$—	$0.1	$—	$0.1

(1) Balance includes $102.6 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisition-related escrows.

(2) Balance relates to the restricted investments measured at fair market value of the Company's India Gratuity Trust.

(3) Balance relates to investments measured at fair value related to the Company's non-qualified deferred compensation plan assets.

The Company's Level 2 available-for-sale fixed income securities are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, or alternative pricing sources with reasonable levels of price transparency which

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are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets. The Company's policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During the three months ended March 31, 2013 and March 31, 2012, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain of the Company's assets, including intangible assets, goodwill, and privately-held investments, are measured at fair value on a nonrecurring basis if impairment is indicated. As of March 31, 2013 and December 31, 2012, the Company had no assets or liabilities measured at fair value on a nonrecurring basis.

Assets and Liabilities Not Measured at Fair Value

The carrying amounts of the Company's accounts receivable, financing receivables, accounts payable, and other accrued liabilities approximate fair value due to their short maturities. The fair value of the Company’s long-term debt is disclosed in Note 10, Long-Term Debt and Financing, and was determined using quoted market prices (Level 1).

Note 6. Derivative Instruments

The Company uses derivatives to partially offset its market exposure to fluctuations in certain foreign currencies and does not enter into derivatives for speculative or trading purposes.

The notional amount of Company's foreign currency derivatives are summarized as follows (in millions):

	As of	
	March 31, 2013	December 31, 2012
Cash flow hedges	$67.6	$85.8
Non-designated derivatives	114.4	112.8
Total	$182.0	$198.6

Cash Flow Hedges

The Company can use foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of services and operating expenses. The derivatives are intended to hedge the U.S. Dollar equivalent of the Company's planned cost of services and operating expenses denominated in foreign currencies. These derivatives are designated as cash flow hedges. Execution of these cash flow hedge derivatives typically occurs every month with maturities of one year or less. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive (loss) income, and upon occurrence of the forecasted transaction, is subsequently reclassified into the cost of services or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments in other expense, net in its Condensed Consolidated Statements of Operations. Cash flows from such hedges are classified as operating activities. All amounts within other comprehensive income are expected to be reclassified into earnings within the next 12 months.

As of March 31, 2013 and December 31, 2012, the total fair value of the Company's derivative assets recorded in other current assets on the Condensed Consolidated Balance Sheets was $1.6 million and $3.5 million, respectively. As of March 31, 2013 and December 31, 2012, the total fair value of the Company's derivative liabilities recorded in other accrued liabilities on the Condensed Consolidated Balance Sheets was $1.1 million and $0.1 million, respectively.

During the three months ended March 31, 2013 and March 31, 2012, the Company recognized a loss of $2.1 million and a gain of $6.0 million, respectively, in accumulated other comprehensive (loss) income for the effective portion of its derivative instruments and reclassified a gain of $1.4 million and a loss of $3.5 million, respectively, from other comprehensive income to operating expense in the Condensed Consolidated Statements of Operations.

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The ineffective portion of the Company's derivative instruments recognized in its Condensed Consolidated Statements of Operations was not material during the three months ended March 31, 2013 and March 31, 2012.

Non-Designated Derivatives

The Company also uses foreign currency forward contracts to mitigate variability in gains and losses generated from the remeasurement of certain monetary assets and liabilities denominated in foreign currencies. These derivatives do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in other expense, net in the Condensed Consolidated Statements of Operations. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. The derivatives have maturities within two months.

The Company recognized a net loss of $0.7 million and $0.1 million, during the three months ended March 31, 2013 and March 31, 2012, respectively, on non-designated derivative instruments within other expense, net, in its Condensed Consolidated Statements of Operations.

Offsetting of Derivatives

The Company presents its derivative assets and derivative liabilities on a gross basis in the Condensed Consolidated Balance Sheets. However, under master netting agreements with certain counterparties of foreign exchange contracts, subject to applicable requirements, the Company is allowed to net settle transactions on the same date in the same currency, with a single net amount payable by one party to the other. As of March 31, 2013 and December 31, 2012, the potential effect of rights of setoff associated with derivative instruments would be an offset to both assets and liabilities of $0.2 million and $0.1 million, respectively. The resulting net derivative assets and derivative liabilities of the potential offset impact are $1.4 million and $0.9 million as of March 31, 2013, respectively. The resulting net derivative assets are $3.4 million and not material for derivative liabilities as of December 31, 2012. The Company is not required to pledge nor is it entitled to receive cash collateral related to these derivative transactions.

Note 7. Goodwill and Purchased Intangible Assets

Goodwill

The following table presents the goodwill activity allocated to the Company's reportable segments during the three months ended March 31, 2013 (in millions):

	PSD	SSD	Total
Balance as of December 31, 2012	$1,866.3	$2,191.5	$4,057.8
Reclassifications	(179.0)	179.0	—
Balance as of March 31, 2013	$1,687.3	$2,370.5	$4,057.8

Goodwill associated with security products previously reported under PSD has been reclassified to SSD in connection with the Company's product realignment of all security products within SSD from PSD. See Note 13, Segments, for further discussion of the Company's product realignment. Goodwill was reclassified based on the relative fair value allocation of the reporting units affected. There were no impairments to goodwill during the three months ended March 31, 2013 and March 31, 2012.

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Purchased Intangible Assets

The Company's purchased intangible assets were as follows (in millions):

	Gross	Accumulated Amortization	Impairments and Other Charges	Net
As of March 31, 2013				
Intangible assets with finite lives:				
Technologies and patents	$564.0	$(431.7)	$(30.5)	$101.8
Customer contracts, support agreements, and related relationships	74.3	(60.1)	(2.2)	12.0
Other	18.8	(18.8)	—	—
Total intangible assets with finite lives	657.1	(510.6)	(32.7)	113.8
IPR&D with indefinite lives	17.4	—	—	17.4
Total purchased intangible assets	$674.5	$(510.6)	$(32.7)	$131.2
As of December 31, 2012				
Intangible assets with finite lives:				
Technologies and patents	$554.1	$(425.0)	$(30.5)	$98.6
Customer contracts, support agreements, and related relationships	74.3	(59.2)	(2.2)	12.9
Other	18.8	(18.8)	—	—
Total intangible assets with finite lives	647.2	(503.0)	(32.7)	111.5
IPR&D with indefinite lives	17.4	—	—	17.4
Total purchased intangible assets	$664.6	$(503.0)	$(32.7)	$128.9

The purchased intangible assets balance as of March 31, 2013, includes intangible assets acquired through the acquisition completed during the first quarter of 2013. Refer to Note 3, Business Combinations, for further details.

Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled $7.5 million and $7.3 million for the three months ended March 31, 2013 and March 31, 2012, respectively. There were no impairment charges with respect to the purchased intangible assets during the three months ended March 31, 2013 and March 31, 2012.

As of March 31, 2013, the estimated future amortization expense of purchased intangible assets with finite lives is as follows (in millions):

Years Ending December 31,	Amount
Remainder of 2013	$22.9
2014	30.4
2015	26.8
2016	14.2
2017	10.5
Thereafter	9.0
Total	$113.8

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Note 8. Other Financial Information

Inventories, Net

The Company purchases and holds inventory to provide adequate component supplies over the life of the underlying products. The majority of the Company's inventory is production components. Inventories, net are reported within prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and consisted of the following (in millions):

	As of March 31, 2013	December 31, 2012
Inventories, net:		
Production materials	$50.1	$54.6
Finished goods	4.0	4.1
Total inventories, net	$54.1	$58.7

Warranties

The Company accrues for warranty costs as part of its cost of sales based on associated material costs, labor costs for customer support, and overhead at the time revenue is recognized. This provision is reported as accrued warranty within current liabilities on the Condensed Consolidated Balance Sheets. Changes in the Company’s warranty reserve during the three months ended March 31, 2013 were as follows (in millions):

Balance as of December 31, 2012	$29.7
Provisions made during the period, net	7.3
Change in estimate	(0.3)
Actual costs incurred during the period	(7.3)
Balance as of March 31, 2013	$29.4

Deferred Revenue

Details of the Company's deferred revenue, as reported on the Condensed Consolidated Balance Sheets, were as follows (in millions):

	As of March 31, 2013	December 31, 2012
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$250.5	$256.9
Distributor inventory and other sell-through items	122.7	138.4
Deferred gross product revenue	373.2	395.3
Deferred cost of product revenue	(86.4)	(99.4)
Deferred product revenue, net	286.8	295.9
Deferred service revenue	693.9	627.5
Total	$980.7	$923.4
Reported as:		
Current	$774.7	$693.5
Long-term	206.0	229.9
Total	$980.7	$923.4

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Deferred product revenue represents unrecognized revenue related to shipments to distributors that have not sold through to end-users, undelivered product commitments, and other shipments that have not met all revenue recognition criteria. Deferred product revenue is recorded net of the related costs of product revenue. Deferred service revenue represents customer payments made in advance for services, which include technical support, hardware and software maintenance, professional services, and training.

Other Expense, Net

Other expense, net consisted of the following (in millions):

	Three Months Ended March 31,	
	2013	2012
Interest income	$2.1	$2.8
Interest expense	(14.3)	(14.2)
Other	2.1	(13.0)
Other expense, net	$(10.1)	$(24.4)

Interest income primarily includes interest earned on the Company’s cash, cash equivalents, and investments. Interest expense primarily includes interest net of capitalized interest expense from long-term debt and customer financing arrangements. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items. During the three months ended March 31, 2013, Other was primarily comprised of a $1.6 million gain related to a privately-held investment. During the three months ended March 31, 2012, Other was primarily comprised of an other-than-temporary impairment charge of $14.0 million, related to a privately-held equity investment.

Note 9. Restructuring Charges

Restructuring charges are based on the Company's restructuring plans that were committed to by management. These restructuring charges are recorded within cost of revenues or restructuring charges in the Condensed Consolidated Statements of Operations, as applicable. Any changes in the estimates of executing the approved plans are reflected in the Company's results of operations. Restructuring liabilities are reported within other accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets.

During 2012, the Company initiated a restructuring plan (the "2012 Restructuring Plan") to bring its cost structure more in line with its long-term financial and strategic model. The 2012 Restructuring Plan consists of workforce reductions, facility consolidations or closures, and supply chain and procurement efficiencies. During the three months ended March 31, 2013, the Company continued to implement restructuring activities under the 2012 Restructuring Plan and recorded $7.8 million in charges for workforce reductions, facility consolidations or closures, and contract terminations. Under the 2012 Restructuring Plan, total costs incurred through March 31, 2013, was $101.1 million of which $53.6 million was recorded within cost of revenues and $47.5 million was recorded within restructuring charges in the Condensed Consolidated Statements of Operations. The Company expects to incur charges related to this plan through the end of fiscal 2013.

During 2011, the Company implemented a restructuring plan (the "2011 Restructuring Plan") in an effort to better align its business operations with the current market and macroeconomic conditions. The 2011 Restructuring Plan consisted of certain workforce reductions, facility closures and to a lesser extent, contract terminations. The Company recorded the majority of the restructuring charges associated with this plan during the years ended 2012 and 2011 and recorded severance-related adjustments of $0.1 million during the three months ended March 31, 2013. As of March 31, 2013, the remaining restructuring liability under this plan relates to facility charges, which are expected to be completed by March 2018.

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The following table presents restructuring charges included in cost of revenues and restructuring charges in the Condensed Consolidated Statements of Operations under the Company's restructuring plans (in millions):

	Three Months Ended March 31,	
	2013	2012
Severance	$4.4	$3.0
Facilities	2.6	(0.2)
Contract terminations and other	0.7	(0.8)
Total	$7.7	$2.0

The following table provides a summary of changes in the restructuring liability related to the Company's plans during the three months ended March 31, 2013 (in millions):

	December 31, 2012	Charges	Cash Payments	Non-cash Settlements and Other	March 31, 2013
Severance	$10.6	$4.4	$(8.2)	$(0.1)	$6.7
Facilities	5.2	2.6	(1.8)	(0.2)	5.8
Contract terminations and other	2.4	0.7	(2.1)	0.5	1.5
Total	$18.2	$7.7	$(12.1)	$0.2	$14.0

In connection with the restructuring plans discussed above, the Company expects to record aggregate future charges of approximately $14.0 million through the remainder of 2013, consisting of approximately $1.0 million and $13.0 million related to workforce reductions and facility closures, respectively.

Note 10. Long-Term Debt and Financing

Long-Term Debt

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

	As of March 31, 2013	
	Amount	Effective Interest Rates
Senior notes:		
3.10% fixed-rate notes, due 2016 ("2016 Notes")	$300.0	3.12%
4.60% fixed-rate notes, due 2021 ("2021 Notes")	300.0	4.63%
5.95% fixed-rate notes, due 2041 ("2041 Notes")	400.0	6.01%
Total senior notes	1,000.0	
Unaccreted discount	(0.8)	
Total	$999.2	

The effective interest rates for the 2016 Notes, 2021 Notes, and 2041 Notes (collectively the “Notes”) include the interest on the Notes, accretion of the discount, and amortization of issuance costs. As of March 31, 2013 and December 31, 2012, the estimated fair value of the Notes included in long-term debt in the Condensed Consolidated Balance Sheets was approximately $1,074.3 million and $1,090.7 million, respectively, based on quoted market prices (Level 1). As of March 31, 2013, the Company was in compliance with all of its debt covenants.

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Customer Financing Arrangements

The Company has customer financing arrangements to factor its accounts receivable to a third-party financing provider for certain customers that require longer payment terms than those typically provided by the Company. The program does not and is not intended to affect the timing of revenue recognition because the Company only recognizes revenue upon sell-through. Under the financing arrangements, proceeds from the financing provider are due to the Company 30 days from the sale of the receivable. In these transactions with the financing provider, the Company surrendered control over the transferred assets. The factored accounts receivable were isolated from the Company and put beyond the reach of creditors, even in the event of bankruptcy. The Company does not maintain effective control over the transferred assets through obligations or rights to redeem, transfer, or repurchase the receivables after they have been transferred.

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of $181.0 million and $120.6 million during the three months ended March 31, 2013 and March 31, 2012, respectively. The Company received cash proceeds from the financing provider of $162.7 million and $178.5 million during the three months ended March 31, 2013 and March 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, the amounts owed by the financing provider were $159.2 million and $147.6 million, respectively, and were recorded in accounts receivable on the Company’s Condensed Consolidated Balance Sheets.

The portion of the receivable financed that has not been recognized as revenue is accounted for as a financing arrangement and is included in other accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. As of March 31, 2013 and December 31, 2012, the estimated cash received from the financing provider not recognized as revenue from distributors was $28.5 million and $30.7 million, respectively.

Note 11. Equity

Stock Repurchase Activities

The Company currently has authority granted by the Board of Directors (the "Board") to repurchase up to $1.0 billion of its common stock under its stock repurchase program. As of March 31, 2013, there is $438.3 million of authorized funds remaining under the Company's stock repurchase program. In addition to repurchases under the Company’s stock repurchase program, the Company can also repurchase common stock from its employees in connection with net issuance of shares to satisfy minimum tax withholding obligations for the vesting of certain stock awards.

The Company repurchased and retired approximately 6.2 million shares of its common stock at an average price of $20.99 per share for an aggregate purchase price of $129.9 million during the three months ended March 31, 2013, under its stock repurchase program. The Company repurchased and retired approximately 2.4 million shares of its common stock at an average price of $21.75 per share for an aggregate purchase price of $51.6 million during the three months ended March 31, 2012 under its stock repurchase program. Repurchases associated to net issuances were not significant during the three months ended March 31, 2013 and March 31, 2012.

All shares of common stock repurchased under the Company's stock repurchase program and from its employees in connection with net issuance have been retired. Future share repurchases under the Company’s stock repurchase program will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time. See Note 17, Subsequent Events, for discussion of the Company's stock repurchase activity subsequent to March 31, 2013.

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Accumulated Other Comprehensive (Loss) Income, Net of Tax

The components of accumulated other comprehensive (loss) income, net of related taxes, during the three months ended March 31, 2013 were as follows (in millions):

	Unrealized Gains (Losses) on Available-for-Sale Securities[1]	Unrealized Gains (Losses) on Cash Flow Hedges[2]	Foreign Currency Translation Adjustments	Total
Balance as of December 31, 2012	$2.1	$3.0	$(0.4)	$4.7
Other comprehensive loss before reclassifications	(0.2)	(2.1)	(5.8)	(8.1)
Amount reclassified from accumulated other comprehensive (loss) income	(0.4)	(1.4)	—	(1.8)
Other comprehensive loss[3]	(0.6)	(3.5)	(5.8)	(9.9)
Balance as of March 31, 2013	$1.5	$(0.5)	$(6.2)	$(5.2)

(1) The reclassifications out of accumulated comprehensive income during the three months ended March 31, 2013 for realized gains on available-for-sale securities of $0.4 million are included in other expense, net in the Condensed Consolidated Statements of Operations.

(2) The reclassifications out of accumulated comprehensive income during the three months ended March 31, 2013 for realized gains on cash flow hedges are included within cost of revenues of $0.2 million, research and development of $0.4 million, sales and marketing of $0.5 million, and general and administrative of $0.3 million for which the hedged transactions relate in the Condensed Consolidated Statements of Operations.

(3) Taxes related to each component of other comprehensive loss were not material for the three months ended March 31, 2013 and March 31, 2012.

Note 12. Employee Benefit Plans

Share-Based Compensation Plans

The Company’s share-based compensation plans include the 2006 Equity Incentive Plan (the “2006 Plan”), the 2000 Nonstatutory Stock Option Plan (the “2000 Plan”), the Amended and Restated 1996 Stock Plan (the “1996 Plan”), various equity incentive plans assumed through acquisitions, and the 2008 Employee Stock Purchase Plan (the "2008 Purchase Plan"). Under these plans, the Company has granted (or in the case of acquired plans assumed) stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), and performance share awards ("PSAs").

The 2006 Plan was adopted and approved by the Company’s stockholders in May 2006. To date, the Company's stockholders have approved a share reserve of 149.5 million shares of common stock plus the addition of any shares subject to options under the 2000 Plan and the 1996 Plan that were outstanding as of May 18, 2006, and that subsequently expire unexercised, up to a maximum of an additional 75.0 million shares. As of March 31, 2013, the 2006 Plan had 52.5 million shares subject to currently outstanding equity awards and 43.8 million shares available for future issuance.

The 2008 Purchase Plan was adopted in May 2008. To date, the Company's stockholders have approved a share reserve of 19.0 million shares of the Company's common stock for issuance under this plan. The 2008 Purchase Plan permits eligible employees to acquire shares of the Company’s common stock at a 15% discount to the offering price (as determined in the 2008 Purchase Plan) through periodic payroll deductions of up to 10% of base compensation, subject to individual purchase limits of 6,000 shares in any twelve-month period or $25,000 worth of stock, determined at the fair market value of the shares at the time the stock purchase option is granted, in one calendar year. As of March 31, 2013, approximately 11.4 million shares have been issued and 7.6 million shares remain available for future issuance under the 2008 Purchase Plan.

In connection with certain past acquisitions, the Company assumed stock options, RSU, and RSA awards under the assumed stock plans of the acquired companies and exchanged the assumed awards for Juniper Networks' stock options, RSUs, and RSAs, respectively. No new stock options, RSUs, and RSAs can be granted under these plans. As of March 31, 2013, stock options, RSUs and RSAs representing approximately 6.6 million shares of common stock were outstanding under all awards assumed through the Company's acquisitions.

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Stock Option Activities

The following table summarizes the Company's stock option activity and related information as of and for the three months ended March 31, 2013 (in millions, except for per share amounts and years):

	Outstanding Options			
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance as of December 31, 2012	34.1	$24.13		
Options granted	—	—		
Options canceled	(0.4)	31.35		
Options exercised	(2.3)	16.17		
Options expired	(1.4)	27.73		
Balance as of March 31, 2013	30.0	$24.46	3.1	$35.8
As of March 31, 2013:				
Vested and expected-to-vest options	29.2	$24.50	3.0	$32.5
Exercisable options	24.5	$24.33	2.4	$18.8

Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $18.54 per share as of March 31, 2013, and the exercise price multiplied by the number of related options. The pre-tax intrinsic value of options exercised, representing the difference between the fair market value of the Company's common stock on the date of the exercise and the exercise price of each option, was $11.9 million for the three months ended March 31, 2013.

Restricted Stock Unit, Restricted Stock Award, and Performance Share Award Activities

The following table summarizes the Company's RSU, RSA, and PSA activity and related information as of and for the three months ended March 31, 2013 (in millions, except per share amounts and years):

	Outstanding RSUs, RSAs, and PSAs			
	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance as of December 31, 2012	26.8	$27.76		
RSUs granted	7.7	20.41		
PSAs granted (*)	2.0	21.36		
RSUs vested	(3.8)	28.80		
PSAs vested	(1.0)	28.26		
RSAs vested	(0.2)	19.59		
RSUs canceled	(0.7)	24.20		
PSAs canceled	(1.8)	29.05		

Balance as of March 31, 2013	29.0	$25.28	1.7	$538.4
As of March 31, 2013:				
Vested and expected-to-vest RSUs, RSAs, and PSAs	24.9	$23.95	1.6	$461.3

(*) The number of shares subject to PSAs granted represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term. The aggregate number of shares subject to these PSAs that would be issued if performance goals determined by the Compensation Committee are achieved at target is 1.0 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 2.0 million shares.

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Employee Stock Purchase Plan ("ESPP")

The Company's 2008 Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. Employees purchased approximately 1.9 million and 1.7 million shares of common stock through the 2008 Purchase Plan at an average per share price of $15.05 and $17.79 for the three months ended March 31, 2013 and March 31, 2012, respectively.

Share-Based Compensation Expense

The weighted-average assumptions used and the resulting estimates of fair value for stock options and ESPP were as follows:

	Three Months Ended March 31,	
	2013	2012
Stock Options:		
Volatility	—	46%
Risk-free interest rate	—	0.8%
Expected life (years)	—	4.2
Dividend yield	—	—
Weighted-average fair value per share	—	$8.51
ESPP:		
Volatility	36%	51%
Risk-free interest rate	0.1%	0.1%
Expected life (years)	0.5	0.5
Dividend yield	—	—
Weighted-average fair value per share	$5.63	$6.38

Share-based compensation expense associated with stock options, ESPP, RSUs, RSAs, and PSAs was recorded in the following cost and expense categories in the Company's Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended March 31,	
	2013	2012
Cost of revenues - Product	$0.9	$1.0
Cost of revenues - Service	4.6	5.3
Research and development	23.6	25.8
Sales and marketing	14.5	21.9
General and administrative	6.3	11.0
Total	$49.9	$65.0

The following table summarizes share-based compensation expense by award type (in millions):

	Three Months Ended March 31,	
	2013	2012
Stock options	$9.5	$17.7
RSUs and PSAs	33.7	41.8
RSAs	3.3	—

ESPP	3.4	5.5
Total	$49.9	$65.0

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The following table presents unrecognized compensation cost, adjusted for estimated forfeitures, recognized over a weighted-average period related to unvested stock options, RSUs, PSAs, and RSAs as of March 31, 2013 (in millions, except years):

	Unrecognized Compensation Cost	Weighted Average Period (In Years)
Stock options	$59.0	2.3
RSUs and PSAs	342.7	2.2
RSAs	$65.2	3.2

Note 13. Segments

The Company’s chief operating decision maker (“CODM”) allocates resources and assesses performance based on financial information of the Company’s divisions. In the first quarter of 2013, the Company consolidated operational oversight and management of all security products within the SSD segment. As a result of this change, security products previously reported in the PSD segment (including the Branch SRX, Branch Firewall, and J Series product families) are now reported in the SSD segment. The Company reclassified the segment data for the prior period to conform to the current period's presentation.

The Company’s PSD segment primarily offers scalable routing and switching products that are used in service provider, enterprise, and public sector networks to control and direct network traffic from data centers, core, edge, aggregation, campus, Wide Area Networks ("WANs"), and customer premise equipment level. The Company's PSD segment consists of routing and switching products and services. Routing products and services include the ACX, E, M, MX, PTX, and T Series. Switching products and services primarily consist of the EX Series and wireless local area network solutions, as well as QFabric™.

The Company's SSD segment offers solutions that meet a broad array of our customers’ priorities, from protecting the users, applications and data on the network to providing network services across a distributed infrastructure. The SSD segment primarily consists of security, software, management, virtualization, routing products and services. Security includes SRX, firewall, vGW Virtual Gateways, virtual private network systems and appliances, secure socket layer virtual private network appliances, intrusion detection and prevention appliances, wide area network optimization platforms, Junos Pulse, and J Series. Software and services for the mobile and wireline network edge include traffic flow monitoring, mobile business services, dynamic application and subscriber awareness, next generation network addressing, as well as the MobileNext architecture for mobile networks. Management and virtualization products include Junosphere, Junos SDK, JunosV App Engine and the network management platform, Junos Space.

The CODM does not allocate to the Company's business segments certain operating expenses managed separately at the corporate level. Direct costs and operating expenses, such as standard cost of goods sold, research and development, and product marketing expenses, are generally applied to each segment. Indirect costs, such as manufacturing overhead and other cost of revenues, are allocated based on factors including headcount, usage, and revenue. Segment contribution margin provides supplemental data on operational performance and is comprised of these direct costs and operating expenses, as well as these indirect costs. Corporate unallocated expenses include: sales, marketing, general and administrative costs, share-based compensation, amortization of purchased intangible assets, restructuring and other charges, gains or losses on equity investments, other expense, net, income taxes, and certain other charges. Segment contribution margin excludes these corporate unallocated expenses.

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The following table summarizes financial information for each segment used by the CODM (in millions):

	Three Months Ended March 31, 2013	2012
Net revenues:		
PSD	$809.2	$765.7
SSD	250.0	266.8
Total net revenues	$1,059.2	$1,032.5
Segment contribution margin:		
PSD	$330.1	$276.3
SSD	102.0	110.3
Total segment contribution margin	$432.1	$386.6
Corporate unallocated expenses[1]	$(266.1)	$(263.1)
Amortization of purchased intangible assets[2]	(7.5)	(7.3)
Share-based compensation expense	(49.9)	(65.0)
Share-based payroll tax expense	(3.5)	(0.3)
Restructuring charges[3]	(7.7)	(2.0)
Acquisition and litigation charges	(10.4)	(1.2)
Total operating income	87.0	47.7
Other expense, net	(10.1)	(24.4)
Income before income taxes	$76.9	$23.3

(1) Amount includes unallocated costs for global functions such as sales, marketing, and general and administrative.
(2) Amount includes amortization expense of purchased intangible assets reported in operating expenses and in cost of revenues.
(3) Amount includes restructuring charges reported in operating expenses and in cost of revenues.

Depreciation expense allocated to the PSD segment was $34.4 million and $26.9 million in the three months ended March 31, 2013 and March 31, 2012, respectively. Depreciation expense allocated to the SSD segment was $9.7 million and $9.2 million in the three months ended March 31, 2013 and March 31, 2012, respectively.

The Company attributes revenues to geographic region based on the customer’s ship-to location. The following table presents net revenues by geographic region (in millions):

	Three Months Ended March 31, 2013	2012
Americas:		
United States	$547.0	$468.4
Other	45.1	62.9
Total Americas	592.1	531.3
Europe, Middle East, and Africa	290.6	307.1
Asia Pacific	176.5	194.1
Total	$1,059.2	$1,032.5

During the three months ended March 31, 2013, AT&T and Verizon Communications, Inc. ("Verizon") accounted for 10.2% and 10.1% of net revenues, respectively. During the three months ended March 31, 2012, Verizon accounted for 12.2% of net revenues.

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The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of March 31, 2013 and December 31, 2012, were attributable to U.S. operations. As of March 31, 2013 and December 31, 2012, gross property and equipment held in the U.S., as a percentage of total property and equipment, was approximately 83% for both periods. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the CODM does not review asset information on a segment basis.

Note 14. Income Taxes

The Company recorded a tax benefit of $14.1 million and a tax provision of $7.0 million, or effective tax rates of (18.3)% and 30.1% for the three months ended March 31, 2013 and March 31, 2012, respectively.

The effective tax rate for the three months ended March 31, 2013, reflects the Company's recognition of total tax benefits of approximately $43.0 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 January 2, 2013.

In March 2013, the Company finalized a closing agreement with the IRS covering specific matters related to the audit of the Company's federal income tax returns for these tax years from 2004 through 2006. As a result of the settlement, the Company recognized a net tax benefit of $27.8 million, which included interest expense of $3.0 million. The Company is no longer subject to an audit of its U.S. federal income taxes through tax year 2006.

On January 2, 2013, the American Taxpayer Relief Act of 2012 retroactively reinstated the U.S. federal R&D tax credit from January 1, 2012 to December 31, 2013. As a result, for the three months ended March 31, 2013, the Company recognized a tax benefit of $15.2 million related to fiscal 2012 R&D credits.

The effective tax rate for the three months ended March 31, 2012, differs from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates, partially offset by an increase in the Company's valuation allowance attributable to investment losses currently disallowed for income tax purposes. The effective rate for the period does not reflect the benefit of the federal R&D credit which had expired on December 31, 2011.

As a result of the IRS tax settlement, the amount of gross unrecognized tax benefits was reduced by approximately $29.1 million. The total amount of gross unrecognized tax benefits was $111.2 million as of March 31, 2013, of which $98.2 million, if recognized, would affect the effective tax rate.

The Company engages in continuous discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. There is a greater than remote likelihood that the balance of the gross unrecognized tax benefits will decrease by approximately $11.1 million within the next twelve months due to lapses of applicable statutes of limitation and the completion of tax review cycles in various tax jurisdictions.

The Company is currently under examination by the IRS for the 2007 through 2009 tax years. The Company is also subject to separate ongoing examinations by the India tax authorities for the 2004 tax year, 2004 through 2008 tax years and the 2009 through 2010 tax years. The Company is not aware of any other examinations by tax authorities in any other major jurisdictions in which it files income tax returns as of March 31, 2013.

In 2008, the Company received a proposed adjustment from the India tax authorities related to the 2004 tax year. In 2009, the India tax authorities commenced a separate investigation of our 2004 through 2008 tax returns and are disputing the Company's determination of taxable income due to the cost basis of certain fixed assets. The Company accrued $4.6 million in penalties and interest in 2009 related to this matter. The Company understands that in accordance with the administrative and judicial process in India, the Company may be required to make payments that are substantially higher than the amount accrued in order to ultimately settle this issue. The Company strongly believes that any assessment it may receive in excess of the amount accrued would be inconsistent with applicable India tax laws and intends to defend this position vigorously.

The Company is pursuing all available administrative procedures relative to these matters. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to these proposed adjustments and the ultimate resolution of these matters is unlikely to have a material effect on its consolidated financial condition or results of operations; however

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there is still a possibility that an adverse outcome of these matters could have a material effect on its consolidated financial condition and results of operations. For more information, see Note 16, Commitments and Contingencies, under the heading "IRS Notices of Proposed Adjustments."

Note 15. Net Income per Share

The Company computed basic and diluted net income per share as follows (in millions, except per share amounts):

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Net income	$91.0	$16.3
Denominator:		
Weighted-average shares used to compute basic net income per share	504.7	527.2
Dilutive effect of employee stock awards	8.0	6.5
Weighted-average shares used to compute diluted net income per share	512.7	533.7
Net income per share:		
Basic	$0.18	$0.03
Diluted	$0.18	$0.03

Basic net income per share is computed using net income available to common stockholders and the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed using net income available to common stockholders and the weighted-average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Dilutive potential common shares consist of common shares issuable upon exercise of stock options, ESPP issuances, and vesting of RSUs, RSAs, and PSAs.

The Company excludes both outstanding stock options with exercise prices that are greater than the average market price and RSUs and RSAs with grant date fair market value that are greater than the average market price from the calculation of diluted net income per share because their effect would be anti-dilutive. The Company includes the common shares underlying PSAs in the calculation of diluted net income per share when they become contingently issuable and excludes such shares when they are not contingently issuable. Potentially dilutive common shares of approximately 24.7 million and 30.6 million shares were outstanding but were not included in the computation of diluted earnings per share for the three months ended March 31, 2013 and March 31, 2012, respectively.

Note 16. Commitments and Contingencies

Commitments

Operating Leases

The Company leases its facilities and certain equipment under non-cancelable operating leases that expire at various dates through November 30, 2022. Certain leases require the Company to pay variable costs such as taxes, maintenance, and insurance and include renewal options and escalation clauses. Future minimum payments under the non-cancelable operating leases totaled $252.8 million as of March 31, 2013. Rent expense was $13.7 million and $15.7 million for the three months ended March 31, 2013 and March 31, 2012, respectively.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, the Company enters into agreements with contract manufacturers and certain suppliers to procure inventory based on the Company's requirements. A significant portion of the Company's purchase commitments arising from these agreements consists of firm and non-cancelable commitments. These purchase commitments totaled $459.1 million as of March 31, 2013. The Company establishes a liability in connection

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with these purchase commitments related to carrying charges, quantities in excess of our demand forecasts, or obsolete materials charges for materials purchased by contract manufacturers to meet the Company’s forecast or customer orders. As of March 31, 2013, the Company accrued $24.0 million based on its estimate of such charges.

Long-Term Debt and Interest Payment on Long-Term Debt

As of March 31, 2013, the Company held long-term debt consisting of senior notes with a carrying value of $999.2 million. Of these Notes, $300.0 million will mature in 2016 and bears interest at a fixed rate of 3.10%, $300.0 million will mature in 2021 and bears interest at a fixed rate of 4.60%, and $400.0 million will mature in 2041 and bears interest at a fixed rate of 5.95%. Interest on the Notes is payable semiannually. See Note 10, Long-Term Debt and Financing, for further discussion of the Company's long-term debt.

Other Contractual Obligations

As of March 31, 2013, other contractual obligations primarily consisted of $94.4 million in indemnity-related and service related escrows, required by certain asset purchases and acquisitions completed in 2005, 2010, 2011, and 2012, campus build-out obligations of $47.5 million, and other miscellaneous commitments of $14.7 million.
Tax Liabilities

As of March 31, 2013, the Company had $87.1 million included in long-term incomes taxes payable in the Condensed Consolidated Balance Sheets for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to this amount due to uncertainties in the timing of tax audit outcomes.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company’s products infringe the intellectual property rights of a third-party. The Company also has financial guarantees consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. As of March 31, 2013 and December 31, 2012, the Company had $11.7 million and $12.6 million, respectively, in bank guarantees and standby letters of credit related to these financial guarantees.

Legal Proceedings
The Company is involved in disputes, litigation, and other legal actions, including, but not limited to, the matters described below. The Company is aggressively defending its current litigation matters, and while there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that there are no existing claims or proceedings that are likely to have a material adverse effect on its financial position. There are many uncertainties associated with any litigation and these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, if any, which could result in the need to adjust the liability and record additional expenses. Unless otherwise noted below, during the period presented, we have not:

recorded any accrual for loss contingencies associated with such legal proceedings; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable.

2011 Federal Securities Class Action

On August 15, 2011, a purported securities class action lawsuit, captioned City of Royal Oak Retirement System v. Juniper Networks, Inc., et al., Case No. 11-cv-04003-LHK, was filed in the United States District Court for the Northern District of California naming the Company and certain of its officers and directors as defendants. The complaint alleges that the defendants made false and misleading statements regarding the Company's business and prospects. Plaintiffs seek an

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unspecified amount of monetary damages on behalf of the purported class. On January 9, 2012 the Court appointed City of Omaha Police and Fire Retirement System and City of Bristol Pension Fund as lead plaintiffs. Lead plaintiffs allege that defendants made false and misleading statements about the Company's business and future prospects, and failed to adequately disclose the impact of certain changes in accounting rules. Lead plaintiffs purport to assert claims for violations of Sections 10 (b), 20(a) and 20A of the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf of those who purchased or otherwise acquired Juniper Networks' common stock between July 20, 2010 and July 26, 2011, inclusive. On March 14, 2012, Defendants filed motions to dismiss lead plaintiffs' amended complaint. On July 23, 2012, the Court issued an order dismissing the action and giving lead plaintiffs leave to file an amended complaint. Lead plaintiffs filed their second amended complaint on August 20, 2012. Defendants filed a motion to dismiss the second amended complaint on September 17, 2012, and lead plaintiffs filed their opposition on October 22, 2012. Defendants filed their reply brief on November 8, 2012. A hearing on the motion to dismiss is scheduled for May 16, 2013.

2011 California State Derivative Lawsuits

Between August 22 and September 9, 2011, four purported shareholder derivative actions were filed in the Superior Court of the State of California, County of Santa Clara, naming certain of the Company's officers and directors as defendants. The Company is named only as a nominal defendant in the actions. The actions were consolidated as In re Juniper Networks, Inc. Shareholder Litigation, Case No. 1-11-CV-207701 (Lead Case), by order dated September 12, 2011. The complaints are generally based upon the disclosures and alleged omissions challenged in the securities class action. The complaints purport to assert claims against the defendants for breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The complaints seek, among other relief, damages in an unspecified amount, restitution, and attorneys' fees and costs. On March 8, 2012, the Company filed a motion to stay the action until resolution of the federal securities class action discussed above, and also filed a demurrer seeking to dismiss the action for the reason that plaintiffs lack standing. The plaintiffs filed oppositions to both motions on April 5, 2012. Defendants filed reply briefs on May 7, 2012. At a hearing on July 27, 2012, the Court ordered that the actions be stayed until such time as the federal court issues an order denying a motion to dismiss in the securities class action, City of Omaha Police and Fire Retirement System v. Juniper Networks, Inc. et al., Case No. CV-11-4003-LHK. The Court deferred deciding the demurrer pending the stay.

2011 Federal Derivative Lawsuit

On September 27, 2011 and December 28, 2011, two purported shareholder derivative actions, captioned Ratinova v. Johnson, et al., Case No. 11-cv-04792 and Lisa E. Coppola, ERA v. Johnson, et al., Case No. 11-cv-06667, respectively, were filed in the United States District Court for the Northern District of California naming certain of the Company's officers and directors as defendants. The Company is named only as a nominal defendant in the action. Like the state derivative actions, the federal derivative lawsuits are generally based upon the disclosures and alleged omissions challenged in the securities class action. The complaints purport to assert claims against the defendants for breach of fiduciary duties and unjust enrichment. The complaints seek, among other relief, damages in an unspecified amount, restitution, and attorneys' fees and costs. By order dated January 30, 2012, the Court consolidated the actions as In re Juniper Networks, Inc. Shareholder Derivative Litigation, Master File No. 11-cv-04792-LHK. On February 3, 2012, the parties filed a stipulation in which the parties requested that the Court stay the action until such time as the Court entered an order denying a motion to dismiss in the related federal securities class action described above. On February 6, 2012, the Court granted the parties' stipulation.

IRS Notices of Proposed Adjustments

The Company is currently under examination by the IRS for the 2007 through 2009 tax years.

In March 2013, the Company executed a closing agreement with the Appeals Division of the IRS related to its intercompany R&D cost sharing arrangement for the license of intangibles acquired in 2004, 2005 and 2006. The Company reached a final resolution with the IRS on all proposed adjustments for all tax years through 2006, which resulted in a settlement of approximately $20.9 million, including interest.

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Note 17. Subsequent Events

Stock Repurchases

Subsequent to March 31, 2013, through the filing of this Report, the Company repurchased 5.0 million shares of its common stock, for $80.0 million at an average purchase price of $16.16 per share, under its stock repurchase program. All of the 5.0 million shares were settled prior to the filing of this Report. Under its stock repurchase program, the Company has $358.3 million authorized funds remaining as of the filing date. Purchases under the Company's stock repurchase program are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

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

This Quarterly Report on Form 10-Q (“Report”), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and the future results of Juniper Networks, Inc. (“we,” “us,” or the “Company”) that are based on our current expectations, estimates, forecasts, and projections about our business, our results of operations, the industry in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “would,” “c “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled “Risk Factors” in Item 1A of Part II and elsewhere, and in other reports we file with the U.S. Securities and Exchange Commission ("SEC"), specifically our most recent Annual Report on Form 10-K. While forward-looking statements are based on reasonable expectations of our management at the time that they are made, you should not rely on them. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included in Part 1, Item I, of this Report, which have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors, including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives.

To aid in understanding our operating results for the periods covered by this Report, we have provided an executive overview and summary of our business and market environment along with a financial results overview. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 2, our “Risk Factors” section included in Item 1A of Part II, and our unaudited Condensed Consolidated Financial Statements and Notes included in Item 1 of Part I of this Report, as well as our audited Consolidated Financial Statements and Notes included in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Business and Market Environment

At Juniper Networks, we design, develop, and sell products and services that together provide our customers with a high performance network infrastructure built on simplicity, security, openness, and scale. We serve the high-performance networking requirements of global service providers, enterprises, governments, and research and public sector organizations that view the network as critical to their success. Our core competencies in hardware systems, silicon design, network architecture and our open cross-network software platform are helping customers achieve superior performance, greater choice and flexibility, while reducing overall total cost of ownership.

We do business in three geographic regions: Americas, Europe, Middle East and Africa (“EMEA”), and Asia Pacific (“APAC”). Our organizational structure is focused on two business segments: Platform Systems Division ("PSD") and Software Solutions Division ("SSD"). Our PSD segment primarily offers scalable routing and switching products that are used in service provider, enterprise, and public sector networks to control and direct network traffic between data centers, core, edge, aggregation, campus, Wide Area Networks ("WANs"), and consumer and business devices. Our

SSD segment offers solutions focused on network security and network services applications for both service providers and enterprise customers. Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to our customers. In the first quarter of 2013, we consolidated operational oversight and management of all security products within the SSD segment. As a result of this product realignment, security products previously reported in the PSD segment (including the Branch SRX, Branch Firewall, and J Series product families) are now reported in the SSD segment. We reclassified the segment data for the prior period to conform to the current period's presentation. We believe this change will provide investors with increased financial reporting transparency and will enable better insight into the market and performance trends driving our business.

During the first quarter of 2013, we saw moderate growth in some of our primary markets. We continued to experience an uncertain global macroeconomic environment in which our customers exercised care and conservatism in their investment prioritization and project deployments. We expect that our customers will continue to remain cautious with their capital spending in the near term. We also saw higher product gross margins compared to the same period in 2012, partially due to our

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cost reduction efforts. We believe our product gross margins may decline in the future due to competitive pricing pressure, offset by additional operational improvements and cost efficiencies. Nevertheless, we are focused on executing our strategy to address the market trends of mobile Internet and cloud computing and we continue to see positive long-term fundamentals for high-performance networking.

In the first quarter of 2013, we saw increased momentum with our recent product offerings, including new customer adoption of our QFabric solutions, T4000 Core Routers, and PTX Series Packet Transport switches. Additionally, we experienced new customer wins contributing to the growth in our ACX Series and MX Series. In security, we introduced next-generation products for protecting data center environments, fortified by the Junos Spotlight Secure, a global attacker intelligence service. We also launched new security line cards for the SRX Series to enhance performance and reliability for LTE mobile network operators. We announced an intent to expand our technology partnership with RSA to collaborate on threat intelligence and secure mobile access to help customers detect and prevent advanced threats and enable mobile productivity securely. Further, we completed a business combination that enhances our data center security portfolio.

In the first quarter of 2013, we articulated a clear vision for the industry as well as a pathway for our customers to embrace Software Defined Networking ("SDN") in their networks, helping them make their networks more agile and lower their operating expenses. Additionally, we announced the PTX3000, the world's smallest Converged Supercore to address the scale and flexibility challenges facing service providers as they converge the optical and packet layers of their networks to optimize their business.

We remain focused on improved operational execution, continued innovation, and prudent capital allocation. We continue to believe that the underlying trends driving network investment around the cloud and mobility are intact and remain strong. We continue to align our cost structure with our focused priorities to achieve cost reduction savings of $150.0 million, primarily in operating expenses, and to a lesser extent, in both product and service cost of revenues for the full year 2013, in comparison to our 2012 full year levels.

Financial Results and Key Performance Metrics Overview

The following table provides an overview of our key financial metrics (in millions, except per share amounts, percentages, days sales outstanding ("DSO"), and book-to-bill):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Net revenues	$1,059.2	$1,032.5	$26.7	3%
Gross Margin	$670.8	$634.1	$36.7	6%
Percentage of net revenues	63.3%	61.4%		
Operating income	$87.0	$47.7	$39.3	82%
Percentage of net revenues	8.2%	4.6%		
Net income	$91.0	$16.3	$74.7	458%
Percentage of net revenues	8.6%	1.6%		
Net income per share:				
Basic	$0.18	$0.03	$0.15	500%
Diluted	$0.18	$0.03	$0.15	500%
Operating cash flows	$(8.9)	$102.3	$(111.2)	(109)%
DSO	45	39	6	15%
Book-to-bill	<1	<1		

Stock repurchase plan activity	$129.9	$51.6	$78.3	152	%

	March 31, 2013	December 31, 2012	$ Change	% Change	
Deferred revenue	$980.7	$923.4	$57.3	6	%

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- Net Revenues: During the three months ended March 31, 2013, we experienced net revenue growth in the Americas, offset by declines in EMEA and APAC compared to the same period in 2012. The year-over-year increase in our net revenues during the three months ended March 31, 2013, was primarily due to an increase in service provider revenue from strong contract renewals and an increase from the sales of our edge routing products and switching products, partially offset by a decline in our high-end security products.

- Gross Margin: Our gross margin as a percentage of revenues increased for the three months ended March 31, 2013, compared to the same period in 2012, due to cost reductions in excess of normal pricing pressures.

- Operating Income: Our operating income increased as a percentage of net revenues during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to the growth in net revenue and gross margin, as we continue to invest in our innovative portfolio, bring new products to market, and optimize our cost structure. The increase was partially offset by litigation charges of $10.3 million for commercial litigation and restructuring charges of $7.7 million recorded during the three months ended March 31, 2013.

- Operating Cash Flows: Operating cash flows decreased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to timing of receipts from our customers, timing of payments to our supply chain, and an increase in annual payments for incentive compensation.

- DSO: DSO is calculated as the ratio of ending accounts receivable, net of allowances, divided by average daily net sales for the preceding 90 days. DSO for the quarter ended March 31, 2013 increased by 6 days, or 15% compared to the quarter ended March 31, 2012. The increase in DSO was primarily due to a significant volume of shipments at the end of the period which increased our outstanding receivables compared to the same period in 2012.

- Book-to-bill: Book-to-bill represents the ratio of product orders booked divided by product revenues during the respective period. Book-to-bill was less than one for the three months ended March 31, 2013 and March 31, 2012 which is a typical pattern in the first quarter.

- Stock Repurchase Plan Activity: Under our stock repurchase program, we repurchased approximately 6.2 million shares of our common stock in the open market at an average price of $20.99 per share for an aggregate purchase price of $129.9 million during the three months ended March 31, 2013.

- Deferred Revenue: Total deferred revenue increased by $57.3 million to $980.7 million as of March 31, 2013, compared to $923.4 million as of December 31, 2012, primarily due to an increase in deferred service revenue driven by service contract renewals, slightly offset by a decrease in deferred product revenue.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. On an ongoing basis, we evaluate our estimates and assumptions. These estimates and assumptions are based on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances to determine reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources.

An accounting policy is considered to be critical if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the effect of the estimates and assumptions on financial condition or operating performance is material. The accounting policies we believe to reflect our more significant estimates, judgments, and assumptions and are most critical to understanding and evaluating our reported financial results are as follows:

- Inventory Valuation and Contract Manufacturer Liabilities;
- Goodwill and Other Long-Lived Assets;
- Warranty Reserves;
- Revenue Recognition;
- Share-Based Compensation;
- Income Taxes and
- Loss Contingencies.

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During the three months ended March 31, 2013, there were no significant changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, for a full description of recent accounting pronouncements, including the actual and expected dates of adoption and estimated effects on our consolidated results of operations and financial condition, which is incorporated herein by reference.

Results of Operations

The following table presents product and service net revenues (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Product	$781.8	$771.9	$9.9	1 %
Percentage of net revenues	73.8 %	74.8 %		
Service	277.4	260.6	16.8	6 %
Percentage of net revenues	26.2 %	25.2 %		
Total net revenues	$1,059.2	$1,032.5	$26.7	3 %

The increase in product revenues during the three months ended March 31, 2013, compared to the same period in 2012, was primarily due to an increase in sales of our routing and switching products, specifically MX and PTX, partially offset by a decrease in sales of security products.

The increase in service revenues during the three months ended March 31, 2013, compared to the same period in 2012, was primarily driven by strong contract renewals from our install base.

Net Revenues by Market and Customer

The following table presents net revenues by market (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Service provider	$712.9	$685.6	$27.3	4 %
Percentage of net revenues	67.3 %	66.4 %		
Enterprise	346.3	346.9	(0.6)	— %
Percentage of net revenues	32.7 %	33.6 %		
Total net revenues	$1,059.2	$1,032.5	$26.7	3 %

We sell our high-performance network products and service offerings from both our PSD and SSD segments to two primary markets: service provider and enterprise. Determination of which market a particular revenue transaction relates to is based primarily upon the customer's industrial classification code, but may also include subjective factors such as the intended use of the product. The service provider market generally includes wireline, wireless, and cable operators, as well as major Internet content and application providers, including those that provide social networking and search engine services. The enterprise market generally comprises businesses; federal, state, and local governments; and research and education institutions.

Net revenues from sales to the service provider market increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to increased demand for routing products and growth with large carriers, cable, and content providers in the Americas, partially offset by a decrease in sales with certain large carriers in Eastern Europe, Japan, and Australia.

Net revenues generated from the enterprise market decreased during the three months ended March 31, 2013, compared to the same period in 2012, reflecting a steep decline in federal demand in the Americas.

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During the three months ended March 31, 2013, AT&T and Verizon Communications, Inc. ("Verizon") accounted for 10.2% and 10.1% of net revenues, respectively. During the three months ended March 31, 2012, Verizon accounted for 12.2% of net revenues.

Net Revenues by Geographic Region

The following table presents net revenues by geographic region (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Americas:				
United States	$547.0	$468.4	$78.6	17 %
Other	45.1	62.9	(17.8)	(28)%
Total Americas	592.1	531.3	60.8	11 %
Percentage of net revenues	55.9 %	51.5 %		
EMEA	290.6	307.1	(16.5)	(5)%
Percentage of net revenues	27.4 %	29.7 %		
APAC	176.5	194.1	(17.6)	(9)%
Percentage of net revenues	16.7 %	18.8 %		
Total net revenues	$1,059.2	$1,032.5	$26.7	3 %

Net revenues in the Americas increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to an increase in sales to certain large carriers, content providers, and cable providers in the United States, partially offset by a decline in the enterprise market, particularly with federal customers.

Net revenues in EMEA decreased for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decrease in sales to certain service provider customers, offset by a slight increase in enterprise customers. For the three months ended March 31, 2013, compared to the same period in 2012, the decrease was primarily in Eastern Europe, partially offset by increased sales in Central Europe and the Middle East.

Net revenues in APAC decreased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decline in sales with certain large service providers in Japan and Australia, partially offset by increases in sales with regional service providers.

Gross Margins

The following table presents gross margins (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Product gross margin	$503.6	$491.3	$12.3	3 %
Percentage of product revenues	64.4 %	63.6 %		
Service gross margin	167.2	142.8	24.4	17 %
Percentage of service revenues	60.3 %	54.8 %		
Total gross margin	$670.8	$634.1	$36.7	6 %
Percentage of net revenues	63.3 %	61.4 %		

Product gross margin percentage increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to cost reduction initiatives in excess of normal pricing pressures and a shift in geographical mix.

Service gross margin percentage increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to higher service revenue, as well as a reduction in costs and greater efficiency in the delivery of services.

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Operating Expenses

The following table presents operating expenses (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Research and development	$262.2	$269.6	$(7.4)	(3)%
Percentage of net revenues	24.7%	26.1%		
Sales and marketing	255.2	257.7	(2.5)	(1)%
Percentage of net revenues	24.1%	25.0%		
General and administrative	47.8	54.7	(6.9)	(13)%
Percentage of net revenues	4.5%	5.3%		
Amortization of purchased intangible assets	1.2	1.2	—	—%
Percentage of net revenues	0.1%	0.1%		
Restructuring charges	7.0	2.0	5.0	250%
Percentage of net revenues	0.7%	0.2%		
Acquisition and litigation charges	10.4	1.2	9.2	767%
Percentage of net revenues	1.0%	0.1%		
Total operating expenses	$583.8	$586.4	$(2.6)	—%
Percentage of net revenues	55.1%	56.8%		

Our operating expenses have historically been driven by personnel-related costs, including wages, commissions, bonuses, vacation, benefits, share-based compensation, and travel, and we expect this trend to continue. Facility and information technology (“IT”) departmental costs are allocated to other departments based on usage and headcount.

Research and development expense decreased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decrease in personnel-related expenses attributable to lower R&D headcount and share-based compensation expense, as well as a decrease in outside services. The decrease was partially offset by an increase in depreciation expense related to capital expenditures from 2012.

Sales and marketing expense decreased marginally during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decrease in personnel-related expenses attributable to lower share-based compensation expense, partially offset by an increase in salaries and fringe resulting from higher sales and marketing headcount as well as an increase in consulting services.

General and administrative expense decreased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decrease in personnel-related expenses related to lower share-based compensation expense.

Restructuring charges increased during the three months ended March 31, 2013, compared to the same period in 2012, due to our 2012 Restructuring Plan. During the three months ended March 31, 2013, we recorded $7.0 million in charges for workforce reductions, facility consolidations or closures, and contract terminations related to our restructuring plans. In connection with our restructuring plans, we expect to record aggregate future charges of approximately $14.0 million through 2013, consisting of approximately $1.0 million and $13.0 million related to the workforce reductions and facility closures and other charges, respectively.

Acquisition and litigation charges increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a litigation charge of $10.3 million for commercial litigation.

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Share-Based Compensation

Share-based compensation expense associated with stock options, employee stock purchases, restricted stock units ("RSUs"), restricted stock awards ("RSAs") and performance share awards ("PSAs") was recorded in the following cost and expense categories (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Cost of revenues - Product	$0.9	$1.0	$(0.1)	(10)%
Cost of revenues - Service	4.6	5.3	(0.7)	(13)%
Research and development	23.6	25.8	(2.2)	(9)%
Sales and marketing	14.5	21.9	(7.4)	(34)%
General and administrative	6.3	11.0	(4.7)	(43)%
Total	$49.9	$65.0	$(15.1)	(23)%

Share-based compensation expense decreased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a decrease in actual shares vested and a decline in grant date fair values due to lower stock prices.

Effect of Foreign Currency

For the three months ended March 31, 2013 and March 31, 2012, foreign currency fluctuations were not material.

Other Expense, Net and Income Tax (Benefit) Provision

The following table presents other expense, net and income tax (benefit) provision (in millions, except percentages):

	Three Months Ended March 31,			
	2013	2012	$ Change	% Change
Interest income	$2.1	$2.8	$(0.7)	(25)%
Interest expense	(14.3)	(14.2)	(0.1)	1%
Other	2.1	(13.0)	15.1	(116)%
Total other expense, net	$(10.1)	$(24.4)	$14.3	(59)%
Percentage of net revenues	(1.0)%	(2.4)%		
Income tax (benefit) provision	$(14.1)	$7.0	$(21.1)	(301)%
Effective tax rate	(18.3)%	30.1%		

Interest income primarily includes interest income from our cash, cash equivalents, and investments. Interest expense primarily includes interest, net of capitalized interest expense from our long-term debt and customer financing arrangements. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items. During the three months ended March 31, 2013, Other was primarily comprised of a $1.6 million gain related to a privately-held investment. During the three months ended March 31, 2012, Other was primarily comprised of an other-than-temporary impairment charge of $14.0 million, related to a privately-held equity investment.

The effective tax rate for the three months ended March 31, 2013, reflects our recognition of total tax benefits of approximately $43.0 million related to a tax settlement with the Internal Revenue Service (“IRS”) and to the reinstatement of the U.S. federal research and development (“R&D”) tax credit on January 2, 2013.

The effective tax rate for the three months ended March 31, 2012, differs from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates, partially offset by an increase in the Company's valuation allowance attributable to investment losses currently disallowed for income tax purposes. The effective rate for the period does not reflect the benefit of the federal R&D credit which had expired on December 31, 2011.

For further explanation of our income tax (benefit) provision, see Note 14, Income Taxes, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report.

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Segment Information

For a description of the products and services for each segment, see Note 13, Segments, in Notes to Condensed Consolidated Financial Statements in Item I of Part I of this Report.

Platform Systems Division Segment
(in millions, except percentages)

	Three Months Ended March 31, 2013	2012	$ Change	% Change
PSD product revenues:				
Routing	$488.1	$457.6	$30.5	7 %
Switching	131.5	123.5	8.0	6 %
Total PSD product revenues	619.6	581.1	38.5	7 %
PSD service revenues	189.6	184.6	5.0	3 %
Total PSD revenues	$809.2	$765.7	$43.5	6 %
PSD contribution margin (*)	$330.1	$276.3	$53.8	19 %
Percentage of PSD revenues	40.8 %	36.1 %		

(*) A reconciliation of total segment operating income to income before taxes can be found in Note 13, Segments, in Notes to Condensed Consolidated Financial Statements in Item I of this Report.

During the three months ended March 31, 2013, PSD product revenues increased, compared to the same period in 2012, primarily due to growth in sales of our routing and switching products, specifically MX and PTX.

During the three months ended March 31, 2013, PSD service revenues increased, compared to the same period in 2012, primarily due to strong contract renewals of support services.

PSD contribution margin as a percent of PSD revenues increased during the three months ended March 31, 2013, compared to the same period in 2012, due to a combination of revenue growth, an expansion of gross margin, and a reduction in operating expenses.

Software Solutions Division Segment
(in millions, except percentages)

	Three Months Ended March 31, 2013	2012	$ Change	% Change
SSD product revenues:				
Security	$136.7	$168.2	$(31.5)	(19)%
Routing	25.5	22.6	2.9	13 %
Total SSD product revenues	162.2	190.8	(28.6)	(15)%
SSD service revenues	87.8	76.0	11.8	16 %
Total SSD revenues	$250.0	$266.8	$(16.8)	(6)%
SSD contribution margin (*)	$102.0	$110.3	$(8.3)	(8)%
Percentage of SSD revenues	40.8 %	41.3 %		

(*) A reconciliation of total segment operating income to income before taxes can be found in Note 13, Segments, in Notes to Condensed Consolidated Financial Statement in Item I of this Report.

During the three months ended March 31, 2013, SSD product revenues decreased, compared to the same period in 2012, primarily due to a decline in sales of our high-end SRX products and our firewall products.

During the three months ended March 31, 2013, SSD service revenues increased, compared to the same period in 2012, due to contract renewals of support services.

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SSD contribution margin as a percentage of SSD revenues decreased during the three months ended March 31, 2013, compared to the same period in 2012, due to lower revenue and a decrease in gross margin, partially offset by a reduction in operating expenses.

Liquidity and Capital Resources

Historically, we have funded our business primarily through our operating activities and the issuance of our common stock, and more recently, the issuance of our long-term debt. The following table presents our capital resources (in millions, except percentages):

	As of March 31, 2013	December 31, 2012	$ Change	% Change
Working capital	$2,116.3	$2,178.7	$(62.4)	(3)%
Cash and cash equivalents	$2,043.7	$2,407.8	$(364.1)	(15)%
Short-term investments	613.1	441.5	171.6	39%
Long-term investments	1,015.2	988.1	27.1	3%
Total cash, cash equivalents, and investments	3,672.0	3,837.4	(165.4)	(4)%
Long-term debt	999.2	999.2	—	—%
Net cash, cash equivalents, and investments	$2,672.8	$2,838.2	$(165.4)	(6)%

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by accounts payable, accrued liabilities, and short-term deferred revenue. Working capital decreased by $62.4 million during the three months ended March 31, 2013, primarily due to a decrease in cash and cash equivalents partially offset by increases in short-term investments and accounts receivable.

Summary of Cash Flows

During the three months ended March 31, 2013, cash and cash equivalents decreased by $364.1 million. The decrease was the result of cash used in our operating, investing, and financing activities of $8.9 million, $285.1 million, and $70.1 million, respectively.

Operating Activities

Net cash used in operations for the three months ended March 31, 2013, was $8.9 million, compared to net cash provided by operations of $102.3 million for the same period in 2012. The net cash outflows for the three months ended March 31, 2013, were attributable to an increase in accounts receivable of $94.3 million due to a significant volume of shipments at the end of the quarter, $59.6 million prepaid in connection with consolidating our contract manufacturers from three to two, and to a lesser extent, annual payments for incentive compensation.

Investing Activities

For the three months ended March 31, 2013, net cash used in investing activities was $285.1 million, compared to $93.3 million for the three months ended March 31, 2012. The increase in net cash used in investing activities was primarily due to purchases of available-for sale investments partially offset by proceeds from the sale of available-for-sale investments.

Financing Activities

Net cash used in financing activities was $70.1 million for the three months ended March 31, 2013, compared to $6.3 million for the same period in 2012. The increase in net cash used in financing activities was primarily due to purchases and retirement of our common stock partially offset by an increase in proceeds from employee stock option exercises.

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Stock Repurchase Activities

We currently have authority granted by the Board of Directors (the "Board") to repurchase up to $1.0 billion of our common stock under our stock repurchase program. As of March 31, 2013, there is $438.3 million of authorized funds remaining under our stock repurchase program.

During the three months ended March 31, 2013, we repurchased and retired approximately 6.2 million shares of our common stock under our stock repurchase program at an average price of $20.99 per share for an aggregate purchase price of $129.9 million.

Restructuring

As of March 31, 2013, our restructuring liability was approximately $14.0 million of which approximately $8.2 million related to severance and contract termination charges, which are expected to be substantially paid during the third quarter of fiscal 2013. The remaining $5.8 million related to facility closures are expected to be paid through March 2018.

Deferred Revenue

The following table summarizes our deferred product and service revenues (in millions):

	As of March 31, 2013	December 31, 2012
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$250.5	$256.9
Distributor inventory and other sell-through items	122.7	138.4
Deferred gross product revenue	373.2	395.3
Deferred cost of product revenue	(86.4)	(99.4)
Deferred product revenue, net	286.8	295.9
Deferred service revenue	693.9	627.5
Total	$980.7	$923.4

As of March 31, 2013, net deferred product revenue decreased by $9.1 million compared to December 31, 2012, primarily due to releases of product revenue. As of March 31, 2013, the increase in deferred service revenue of $66.4 million compared to December 31, 2012, was driven by service contract renewals.

Off-Balance Sheet Arrangements

As of March 31, 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. It is not our business practice to enter into off-balance sheet arrangements. However, in the normal course of business, we enter into contracts consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. See Note 16, Commitments and Contingencies, in Notes to the Condensed Consolidated Financial Statements in Item 1 of Part I of this Report for additional information regarding our guarantees.

Contractual Obligations

As of March 31, 2013, our principle commitments consist of obligations under operating leases, purchase commitments, debt, and other contractual obligations. There have been no significant changes to these obligations during the three months ended March 31, 2013 compared to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Guarantees

We have entered into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that our products infringe the intellectual property rights of a third-party. We also have financial guarantees consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. As of March 31, 2013 and December 31, 2012, we had $11.7 million and $12.6 million, respectively, in bank guarantees and standby letters of credit related to these financial guarantees.

Liquidity and Capital Resource Requirements

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions and investments in strategic relationships that we have made or we may make in the future. Additionally, if we were to repurchase additional shares of our common stock under our stock repurchase program, our liquidity may be impacted. As of March 31, 2013, 60% of our cash and investment balances were held outside of the U.S., which may be subject to U.S. taxes if repatriated.

In August 2010, we filed a $1.5 billion shelf registration with the SEC. In March 2011, we issued notes in the amount of $1.0 billion under the shelf registration statement. Therefore, while we have no current plans to do so, we may issue up to $500 million in additional securities under the shelf registration statement. The shelf registration is intended to give us flexibility to take advantage of financing opportunities as needed or deemed desirable in light of market conditions. Any additional offerings of securities under the shelf registration statement will be made pursuant to a prospectus.

We have been focused on managing our annual equity usage as a percentage of the common stock outstanding to align with peer group competitive levels and have made changes in recent years to reduce the number of shares underlying the equity awards we grant. For fiscal year 2013, we intend to target the number of shares underlying equity awards granted on an annual basis at 2.75% or less of our common stock outstanding. Based upon shares underlying our grants to date of options, RSUs, RSAs, and PSAs (counting only the on-target measure of such PSAs), we believe we are on track with respect to this goal for 2013.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term, and long-term investments (which includes the proceeds from the issuance of our long-term debt), together with cash generated from operations as well as cash generated from the exercise of stock options and purchases under our employee stock purchase plan will be sufficient to fund our operations and anticipated growth for at least the next twelve months. We believe our working capital is sufficient to meet our liquidity requirements for capital expenditures, commitments, and other liquidity requirements associated with our existing operations during the same period. However, our future liquidity and capital requirements may vary materially from those now planned depending on many factors, including:

- level and mix of our product, sales, and gross profit margins;

- our business, product, capital expenditures and R&D plans;

- repurchases of our common stock;

- incurrence and repayment of debt and related interest obligations;

- litigation expenses, settlements, and judgments, or similar items related to resolution of tax audits;

- volume price discounts and customer rebates;
- accounts receivable levels that we maintain;
- acquisitions and/or funding of other businesses, assets, products, or technologies;
- changes in our compensation policies;
- capital improvements for new and existing facilities;
- technological advances;

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- our competitors' responses to our products and/or pricing;
- our relationships with suppliers, partners, and customers;
- possible future investments in raw material and finished goods inventories;
- expenses related to future restructuring plans, if any;
- tax expense associated with share-based awards;
- issuance of share-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
- level of exercises of stock options and stock purchases under our equity incentive plans; and
- general economic conditions and specific conditions in our industry and markets, including the effects of disruptions in global credit and financial markets, international conflicts, and related uncertainties.

Factors That May Affect Future Results

A description of the risk factors associated with our business is included under “Risk Factors” in Item 1A of Part II of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2012. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Attached, as exhibits to this report are certifications of our principal executive officer and principal financial officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This “Controls and Procedures” section includes information concerning the controls and related evaluations referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were 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 Controls

There were no changes in our internal control over financial reporting that occurred during the first quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control

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system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our controls and procedures are designed to provide reasonable assurance that our control system's objectives will be met and our CEO and CFO have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of these controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the “Legal Proceedings” section in Note 16, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, is incorporated herein by reference.

Item 1A. Risk Factors

Factors That May Affect Future Results

Investments in our securities involve significant risks. The market price of our stock has historically reflected a higher multiple of earnings than many other companies. Accordingly, even small changes in investor expectations for our future growth and earnings, whether as a result of actual or rumored financial or operating results, changes in the mix of the products and services sold, acquisitions, industry changes, or other factors, could trigger, and have triggered in the past, significant fluctuations in the market price of our common stock. Investors in our securities should carefully consider all of the relevant factors disclosed by us, including, but not limited to, the following factors, that could affect our business, operating results and stock price.

Our quarterly results are unpredictable and subject to substantial fluctuations, and, as a result, we may fail to meet the expectations of securities analysts and investors, which could adversely affect the trading price of our common stock.

Our revenues and operating results may vary significantly from quarter-to-quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate.

The factors that may cause our quarterly results to vary quarter by quarter and be unpredictable include, but are not limited to: limited visibility into customer spending plans, changes in the mix of products and services sold, changes in geographies in which our products and services are sold, changing market and economic conditions, current and potential customer consolidation, competition, customer concentration, long sales and implementation cycles, regional economic and political conditions, and seasonality. For example, we, and many companies in our industry, experience adverse seasonal fluctuations in customer spending, particularly in the first and third quarters. Market trends, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may necessitate adjustments to our operations.

As a result of these factors, as well as other variables affecting our operating results, we believe that quarter-to-quarter comparisons of operating results are not necessarily a good indication of what our future performance will be. It is likely that in some future quarters, our operating results may be below our guidance, our long-term financial model or the expectations of securities analysts or investors, in which case the price of our common stock may decline. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenues and/or earnings guidance.

Fluctuating economic conditions make it difficult to predict revenues for a particular period and a shortfall in revenues or increase in costs of production may harm our operating results.

Our revenues and gross margin depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness, customer financial difficulties, and constrained spending on network expansion and enterprise infrastructure have in the past resulted in, and may in the future result in, decreased revenues and earnings. Such factors could make it difficult to accurately forecast sales and operating results and could negatively affect our ability to provide accurate forecasts to our contract manufacturers and manage our contract manufacturer relationships and other expenses. In addition, economic uncertainty concerns over the sovereign debt situation in certain countries in the European Union, as well as continued turmoil in the geopolitical environment in many parts of the world, have, and may continue to, put pressure on global economic conditions, which has led, and could continue to lead, to reduced demand for our products, to delays or reductions in network expansions or infrastructure projects, and/or higher costs of production. Economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, continued weakness and the sovereign debt situation in certain countries in the European Union, may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses is, and will continue to be, fixed in the short and medium term.

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Uncertainty about future economic conditions also makes it difficult to forecast operating results and to make decisions about future investments. Future or continued economic weakness, failure of our customers and markets to recover from such weakness, customer financial difficulties, increases in costs of production, and reductions in spending on network maintenance and expansion could have a material adverse effect on demand for our products and consequently on our business, financial condition, and results of operations.

A limited number of our customers comprise a significant portion of our revenues and there is an ongoing trend toward consolidation in the industry in which our customers and partners operate. Any decrease in revenues from our customers or partners could have an adverse effect on our net revenues and operating results.

A substantial majority of our net revenues depend on sales to a limited number of customers and distribution partners. For example, AT&T and Verizon accounted for greater than 10% of our net revenues during the first quarter of 2013. Changes in the business requirements, vendor selection, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers could significantly decrease sales to such customers or could lead to delays or cancellations of planned purchases of our products or services, which increases the risk of quarterly fluctuations in our revenues and operating results. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition, in recent years, there has been movement towards consolidation in the telecommunications industry (for example, the acquisitions of Global Crossing by Level 3 Communications and Qwest Communications by CenturyLink and Softbank's proposed purchase of a controlling interest in Sprint Nextel) and that consolidation trend has continued. If our customers or partners are parties to consolidation transactions they may delay, suspend or indefinitely reduce or cancel their purchases of our products or other unforeseen consequences could harm our business, financial condition, and results of operations.

The long sales and implementation cycles for our products, as well as our expectation that some customers will sporadically place large orders with short lead times, may cause our revenues and operating results to vary significantly from quarter-to-quarter.

A customer's decision to purchase certain of our products, particularly new products, involves a significant commitment of its resources and a lengthy evaluation and product qualification process. As a result, the sales cycle may be lengthy. In particular, customers making critical decisions regarding the design and implementation of large network deployments may engage in very lengthy procurement processes that may delay or impact expected future orders. Throughout the sales cycle, we may spend considerable time educating and providing information to prospective customers regarding the use and benefits of our products. Even after making the decision to purchase, customers may deploy our products slowly and deliberately. Timing of deployment can vary widely and depends on the skill set of the customer, the size of the network deployment, the complexity of the customer's network environment, and the degree of hardware and operating system configuration necessary to deploy the products. Customers with large networks usually expand their networks in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular basis. These long cycles, as well as our expectation that customers will tend to sporadically place large orders with short lead times, both of which may be exacerbated by the impact of continued global economic weakness, may cause revenues and operating results to vary significantly and unexpectedly from quarter-to-quarter.

We face intense competition that could reduce our revenues and adversely affect our business and financial results.

Competition is intense in the markets that we address. The PSD market has historically been dominated by Cisco, with competition coming from other companies such as Alcatel-Lucent, Brocade, Extreme Networks, Hewlett Packard Company, and Huawei. In the SSD market, we face intense competition from a broader group of companies such as

Check Point, Cisco, F5 Networks, Palo Alto Networks, and Fortinet. Further, a number of other small public and private companies have products or have announced plans for new products to address the same challenges and markets that our products address.

In addition, actual or speculated consolidation among competitors, or the acquisition of our partners and/or resellers by competitors, can increase the competitive pressures faced by us as customers may delay spending decisions or not purchase our products at all. In this regard, Oracle acquired Acme Packet, Inc. in 2013 and Cisco acquired Meraki Networks, Inc. in 2013. A number of our competitors have substantially greater resources and can offer a wider range of products and services for the overall network equipment market than we do. If we are unable to compete successfully against existing and future competitors on the basis of product offerings or price, we could experience a loss in market share and revenues and/or be required to reduce prices, which could reduce our gross margins, and which could materially and adversely affect our business, financial condition, and results of operations.

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We expect our gross margins to vary over time, and the level of product gross margins achieved by us in recent years may not be sustainable.

We expect our product gross margins to vary from quarter-to-quarter, and the gross margins we have achieved in recent years may not be sustainable and may be adversely affected in the future by numerous factors, including customer, product and geographic mix shifts, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, increases in inventory carrying costs, excess product component or obsolescence charges from our contract manufacturers, increased costs due to changes in component pricing or charges incurred due to component holding periods if we do not accurately forecast product demand, warranty related issues, or our introduction of new products or entry into new markets with different pricing and cost structures. For example, in the third quarter of fiscal 2012, our margins declined as a result of an inventory charge resulting from inventory we held in excess of forecasted demand. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

If we receive product orders late in a quarter, we may be unable to recognize revenue for these orders in the same period, which could adversely affect our quarterly revenues.

Generally, our PSD products are not stocked by distributors or resellers due to their cost and complexity and configurations required by our customers, and we generally build such products as orders are received. In recent years, the volume of orders received late in any given fiscal quarter has generally continued to increase but remains unpredictable. If orders for certain products are received late in any quarter, we may not be able to build, ship, and recognize revenue for these orders in the same period, which could adversely affect our ability to meet our expected revenues for such quarter. Additionally, we determine our operating expenses largely on the basis of anticipated revenues and a high percentage of our expenses are fixed in the short and medium term. As a result, a failure or delay in generating or recognizing revenue could cause significant variations in our operating results and operating margin from quarter-to-quarter.

We are dependent on sole source and limited source suppliers for several key components, which makes us susceptible to shortages or price fluctuations in our supply chain, and we may face increased challenges in supply chain management in the future.

During periods of high demand for electronic products, component shortages are possible, and the predictability of the availability of such components may be limited. Any future growth in our business, IT spending and the economy in general is likely to create greater pressures on us and our suppliers to accurately forecast overall component demand and to establish optimal component inventories. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner, and our revenues and gross margins could suffer until other sources can be developed. For example, from time to time, we have experienced component shortages that resulted in delays of product shipments. We currently purchase numerous key components, including ASICs, from single or limited sources. The development of alternate sources for those components is time-consuming, difficult, and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. Also, long-term supply and maintenance obligations to customers increase the duration for which specific components are required, which may further increase the risk of component shortages or the cost of carrying inventory. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver product to our customers, which would seriously affect present and future sales, which would, in turn, adversely affect our business, financial condition, and results of operations.

In addition, the development, licensing, or acquisition of new products in the future may increase the complexity of supply chain management. Failure to effectively manage the supply of key components and products would adversely affect our business.

We rely on value-added and other resellers, as well as distribution partners, to sell our products, and disruptions to, or our failure to effectively develop and manage, our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added and other reseller and distribution partners, including our worldwide strategic partners such as Ericsson, IBM, and NSN. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell our competitors' products, and some of which sell their own products that compete with our products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our value-added resellers or distributors could materially reduce our revenues. For example, in 2006, one of our largest resellers, Lucent, was acquired by Alcatel, a competitor of ours. As a result of the merger, Lucent became a competitor, their resale of our products declined, and we ultimately terminated our reseller agreement with Lucent. Our competitors may in some cases be effective in leveraging their market share positions or in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to develop and maintain relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, or if these partners are not successful in their sales efforts, sales of our products may decrease, and our business, financial condition, and results of operations would suffer.

In addition, we recognize a portion of our revenues based on a sell-through model using information provided by our distributors. If those distributors provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely impacted.

Further, in order to develop and expand our distribution channel, we must continue to offer attractive channel programs to potential partners and scale and improve our processes and procedures that support the channel. As a result, our programs, processes and procedures may become increasingly complex and inherently difficult to manage. We have previously entered into OEM agreements with partners pursuant to which they rebrand and resell our products as part of their product portfolios. These types of relationships are complex and require additional processes and procedures that may be challenging and costly to implement, maintain and manage. Our failure to successfully manage and develop our distribution channel and the programs, processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

Our ability to process orders and ship products in a timely manner is dependent in part on our business systems and performance of the systems and processes of third parties such as our contract manufacturers, suppliers, or other partners, as well as the interfaces between our systems and the systems of such third parties. If our systems, the systems and processes of those third parties, or the interfaces between them experience delays or fail, our business processes and our ability to build and ship products could be impacted, and our financial results could be harmed.

Some of our business processes depend upon our information technology ("IT") systems, the systems, and processes of third parties and on the interfaces of our systems with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. For example, although it did not adversely affect our shipments, an earthquake in late December of 2006 disrupted our communications with China, where a significant part of our manufacturing occurs.

We also rely upon the performance of the systems and processes of our contract manufacturers to build and ship our products. If those systems and processes experience interruption or delay, our ability to build and ship our products in a timely manner may be harmed. For example, as we have expanded our contract manufacturing base to China, we have experienced instances where our contract manufacturer was not able to ship products in the time periods expected by us. If we are not able to ship our products or if product shipments are delayed, our ability to recognize revenue in a timely manner for those products would be affected and our financial results could be harmed.

Telecommunications companies and our other large customers generally require more onerous terms and conditions in our contracts with them. As we seek to sell more products to such customers, we may be required to agree to terms and conditions that could have an adverse effect on our business or ability to recognize revenues.

Telecommunications service provider companies, which comprise a significant portion of our customer base, and other large companies, because of their size, generally have greater purchasing power and, accordingly, have requested and received more favorable terms from others, which often translate into more onerous terms and conditions from us. Recently, France Telecom-Orange and Deutsche Telekom AG have formed a company for the purpose of purchasing products from, and negotiating more favorable contractual terms with, suppliers. As we seek to sell more products to this class of customer, we may be required to agree to such terms and conditions, which may include terms that affect the timing of our ability to recognize revenue and have an adverse effect on our business, financial condition, and results of operations. Consolidation among such large customers can further increase their buying power and ability to require onerous terms.

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In addition, telecommunications service providers have purchased products from other vendors who promised but failed to deliver certain functionality and/or had products that caused problems or outages in the networks of these customers. As a result, these customers may request additional features from us and require substantial penalties for failure to deliver such features or may require substantial penalties for any network outages that may be caused by our products. These additional requests and penalties, if we are required to agree to them, may require us to defer revenue recognition from such sales, which may negatively affect our business, financial condition, and results of operations.

System security risks, data protection breaches, and cyber-attacks could compromise our proprietary information, disrupt our internal operations and harm public perception of our security products, which could cause our business and reputation to suffer and adversely affect our stock price.

In the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners on our networks. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies, including Juniper Networks, are subject to a wide variety of attacks on their networks on an ongoing basis. Despite our security measures, Juniper Networks' information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and cause us reputational and financial harm. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our networks.

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our security products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. Because the techniques used by computer programmers and hackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could impede our sales, manufacturing, distribution or other critical functions. In addition, the economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify.

Regulation of the telecommunications industry could harm our operating results and future prospects.

The traditional telecommunications industry is highly regulated, and our business and financial condition could be adversely affected by changes in regulations relating to the Internet telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks, but future regulations could include sales taxes on products sold via the Internet and Internet service provider access charges. We could be adversely affected by regulation of IP networks and commerce in any country where we market equipment and services to service or content providers. Regulations governing the range of services and business models that can be offered by service providers or content providers could adversely affect those customers' needs for products designed to enable a wide range of such services or business models. For instance, the U.S. Federal Communications Commission has issued regulations governing aspects of fixed broadband networks and wireless networks; these regulations might impact service provider and content provider business models and as such, providers' needs for Internet telecommunications equipment and services. Also, many jurisdictions are evaluating or implementing regulations relating to cyber security, supply chain integrity, privacy and data protection, any of which can affect the market and requirements for networking and security equipment.

In addition, environmental regulations relevant to electronic equipment manufacturing or operations may impact our business and financial condition adversely. For instance, the European Union and China have adopted WEEE and ROHS regulations, which require producers of electrical and electronic equipment to assume responsibility for collecting, treating, recycling and disposing of products when they have reached the end of their useful life, as well as REACH regulations, which regulate handling of certain chemical substances that may be used in our products. In addition, some governments have regulations prohibiting government entities from purchasing security products that do not meet specified indigenous certification criteria, even though those criteria may be in conflict with accepted international standards. These regulations are in effect or under consideration in several jurisdictions where we do business.

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The adoption and implementation of such regulations could reduce demand for our products, increase the cost of building and selling our products, result in product inventory write-offs, impact our ability to ship products into affected areas and recognize revenue in a timely manner and require us to spend significant time and expense to comply, and we could face fines and civil or criminal sanctions or claims if we were to violate or become liable under such regulations. Any of these impacts could have a material adverse effect on our business, financial condition, and results of operations.

Governmental regulations affecting the import or export of products or affecting products containing encryption capabilities could negatively affect our revenues.

Certain of our products contain or use encryption technology. The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export, among other things, encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring certification, notifications, review of source code, or the escrow and governmental recovery of private encryption keys. For example, Russia and China recently have implemented new requirements relating to products containing encryption and India has imposed special warranty and other obligations associated with technology deemed critical. Governmental regulation of encryption or IP networking technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international and domestic sales and adversely affect our revenues. In addition, failure to comply with such regulations could result in harm to our reputation, penalties, costs, and restrictions on import or export privileges or adversely affect sales to government agencies or government-funded projects.

If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products and product enhancements that meet those technological shifts, needs and opportunities, or if those products are not made available in a timely manner or do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenues will suffer.

We cannot guarantee that we will be able to anticipate future technological shifts, market needs and opportunities or be able to develop new products or product enhancements to meet such technological shifts, needs or opportunities in a timely manner or at all. For example, the move from traditional network infrastructures towards software defined networks ("SDN") has been receiving considerable attention. In our view, it will take several years to see the full impact of SDN, and we believe the successful products and solutions in this market will combine hardware and software elements together. If we fail to anticipate market requirements or fail to develop and introduce new products or product enhancements to meet those needs in a timely manner, it could cause us to lose customers, and such failure could substantially decrease or delay market acceptance and sales of our present and future products, which would significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop, and commercially introduce new products and enhancements, there can be no assurance that new products or enhancements will achieve widespread market acceptance.

In addition, as a result of our acquisitions of Altor and Trapeze in 2010, we have been offering a virtualization security product and a WLAN product. Also, in 2012, we announced new products, including the smaller version of our QFabric solutions, the latest QFX3000-M QFabric System, T4000 Core Routers, PTX Series Packet Transport switches, MX2020 and MX2010 3D Universal Edge Routers and JunosV App Engine. If these or other new products do not gain market acceptance at a sufficient rate of growth, our ability to meet future financial targets may be adversely affected. In addition, if we fail to achieve market acceptance at a sufficient rate of growth, our ability to meet future financial targets and aspirations may be adversely affected. Finally, if we fail to deliver new or announced products to the market in a timely manner, it could adversely affect the market acceptance of those products and harm our competitive position and our business and financial results.

Our ability to develop, market, and sell products could be harmed if we are unable to retain or hire key personnel.

Our future success depends upon our ability to recruit and retain the services of executive, engineering, sales and marketing, and support personnel. The supply of highly qualified individuals, in particular engineers in very specialized technical areas, or sales people specializing in the service provider and enterprise markets, is limited and competition for such individuals is intense. None of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our key employees, the inability to attract or retain personnel in the future or delays in hiring required personnel, particularly engineers and sales people, and the complexity and time involved in replacing or training new employees, could delay the development and introduction of new products, and negatively impact our ability to market, sell, or support our products.

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Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our future effective tax rates could be subject to volatility or adversely affected by: earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates; changes in the valuation of our deferred tax assets and liabilities; expiration of, or lapses in, the R&D tax credit laws applicable to us; transfer pricing adjustments related to certain acquisitions, including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; costs related to intercompany restructuring; tax effects of share-based compensation; or changes in tax laws, regulations, accounting principles, or interpretations thereof. 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 effect on our business, financial condition, and results of operations.

If we fail to accurately predict our manufacturing requirements, we could incur additional costs or experience manufacturing delays, which would harm our business.

We provide demand forecasts to our contract manufacturers and the manufacturers order components and plan capacity based on these forecasts. If we overestimate our requirements, our contract manufacturers may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. For example, in the third quarter of fiscal 2012, our gross margins were reduced as a result of an inventory charge resulting from inventory we held in excess of forecasted demand. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms, and the demand for each component at a given time, and because our contract manufacturers are third-party manufacturers for numerous other companies, if we underestimate our requirements, as we did in the third quarter of 2010 with respect to certain components, our contract manufacturers may have inadequate time, materials, and/or components required to produce our products, which could increase costs or could delay or interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenues.

We are dependent on contract manufacturers with whom we do not have long-term supply contracts, and changes to those relationships, expected or unexpected, may result in delays or disruptions that could cause us to lose revenues and damage our customer relationships.

We depend on independent contract manufacturers (each of which is a third-party manufacturer for numerous companies) to manufacture our products. Although we have contracts with our contract manufacturers, these contracts do not require them to manufacture our products on a long-term basis in any specific quantity or at any specific price. In addition, it is time-consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we fail to effectively manage our contract manufacturer relationships, which includes failing to provide accurate forecasts of our requirements, or if one or more of them experiences delays, disruptions, or quality control problems in our manufacturing operations, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers would increase the complexity of our supply chain management. Moreover, an increasing portion of our manufacturing is performed in China and other countries and is therefore subject to risks associated with doing business in other countries. In addition, in late 2012, we confirmed that we were reducing the number of our contract manufacturers. As a result, we will be transitioning the work of one manufacturer to two of our other existing manufacturers during 2013. If we do not manage that transition effectively, we could experience delays or quality issues. Each of these factors could adversely affect our business, financial condition and results of operations.

Upgrades to key internal systems and processes, and problems with the design or implementation of these systems and processes could interfere with, and therefore harm, our business and operations.

We previously initiated a multi-year project to upgrade certain key internal systems and processes, including our company-wide human resources management system, our customer relationship management ("CRM") system and enterprise resource planning ("ERP") system. In the first quarter of 2010, we implemented a major upgrade of our CRM system. In 2012 and continuing into 2013, we expect to implement major changes to our ERP system. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes. Any disruptions or delays in the design and implementation of the new systems or processes, particularly any disruptions or delays that impact our operations, could adversely affect our ability to process customer orders, ship products, provide service and support to our customers, bill and track our customers, fulfill contractual obligations, record and transfer information in a timely and accurate manner, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects,

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the design and implementation of these new systems and processes may be much more costly than we anticipated. If we are unable to successfully design and implement these new systems and processes as planned, or if the implementation of these systems and processes is more costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

We are a party to lawsuits, proceedings, and other disputes, which are costly to defend and, if determined adversely to us, could require us to pay damages or prevent us from taking certain actions, any or all of which could harm our business, financial condition, and results of operations.

We, and certain of our current and former officers and current and former members of our Board of Directors, are subject to various lawsuits. We have been served with lawsuits related to employment matters, commercial transactions and patent infringement as well as securities laws. A description of the securities lawsuits can be found in Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements of this Report, under the heading “Legal Proceedings.” There can be no assurance that these or any actions that have been or may in the future be brought against us, our officers, and our directors will be resolved favorably or that tentative settlements will become final. Regardless of whether they are resolved, these lawsuits are, and any future lawsuits or threatened legal proceedings to which we, our officers, or our directors may become a party will likely be, expensive and time-consuming to defend, settle, and/or resolve. Legal proceedings, threatened legal proceedings or investigations, regardless of their ultimate outcome, could harm our reputation. Costs of defense, as well as any losses resulting from these claims or settlement of these claims, could significantly increase our expenses and could harm our business, financial condition, and results of operations.

We are a party to litigation and claims regarding intellectual property rights, resolution of which may be time-consuming and expensive, as well as require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. Third parties have asserted and may in the future assert claims or initiate litigation related to patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to our products. The asserted claims and/or initiated litigation may include claims against us or our manufacturers, suppliers, partners, or customers, alleging that our products or services infringe proprietary rights. Regardless of the merit of these claims, they have been and can be time-consuming, result in costly litigation, and may require us to develop non-infringing technologies or enter into license agreements. Furthermore, because of the potential for high awards of damages or injunctive relief that are not necessarily predictable, even arguably unmeritorious claims may be settled for significant amounts of money. If any infringement or other intellectual property claim made against us by any third-party is successful, if we are required to settle litigation for significant amounts of money, or if we fail to develop non-infringing technology or license required proprietary rights on commercially reasonable terms and conditions, our business, financial condition, and results of operations could be materially and adversely affected.

We may face difficulties enforcing our proprietary rights.

We generally rely on a combination of patents, copyrights, trademarks, and trade secret laws and restrictions on disclosure of confidential and proprietary information, to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently now pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, infringed or circumvented or that our rights will, in fact, provide competitive advantages to us or protect our technology, either of which could result in costly product redesign efforts, discontinuance of certain product offerings and other competitive harm. Furthermore, 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 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 our success.

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Our success depends upon our ability to effectively plan and manage our resources and restructure our business through rapidly fluctuating economic and market conditions.

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale and adjust our business in response to fluctuating market opportunities and conditions.

In periods of market expansion, we have increased investment in our business by, for example, increasing headcount and increasing our investment in R&D, sales and marketing, and other parts of our business.
Conversely, in the third quarter of 2012, to align our cost structure with long-term strategic plans as part of our productivity and efficiency initiatives, we restructured our business, rebalanced our workforce, and reduced our real estate portfolio. Many of our expenses, such as real estate expenses, are fixed costs that cannot be rapidly or easily adjusted in response to fluctuations in our business or numbers of employees. Moreover, rapid changes in the size of our workforce could adversely affect our ability to develop and deliver products and services as planned or impair our ability to realize our current or future business objectives. Our ability to achieve the anticipated cost savings and other benefits from our restructuring initiatives within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we are unsuccessful at implementing changes, or if other unforeseen events occur, our business and results of operations could be adversely affected.

Our financial condition and results of operations could suffer if there is an additional impairment of goodwill or other intangible assets with indefinite lives.

We are required to test annually and review on an interim basis, our goodwill and intangible assets with indefinite lives, including the goodwill associated with acquisitions, to determine if impairment has occurred. As of March 31, 2013, our goodwill was $4,057.8 million and our intangible assets were $131.2 million. If goodwill or intangible assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. This would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. For example, such impairment could occur if the market value of our common stock falls below certain levels for a sustained period, or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. In the second quarter of 2006, our impairment evaluation resulted in a reduction of $1,280.0 million to the carrying value of goodwill on our Condensed Consolidated Balance Sheets, primarily due to the decline in our market capitalization that occurred over a period of approximately nine months prior to the impairment review and, to a lesser extent, a decrease in forecasted future cash flows. In the third quarter of 2012, our impairment evaluation resulted in a reduction of $5.4 million to the carrying value of certain purchased intangibles on our Condensed Consolidated Balance Sheets, primarily due to the decline in discounted cash flow projections. In recent years, economic weakness contributed to extreme price and volume fluctuations in global stock markets that reduced the market price of many technology company stocks, including ours. Future declines in our stock price, as well as declines in our level of revenues or gross margins, increase the risk that goodwill and intangible assets may become impaired in future periods. We cannot accurately predict the amount and timing of any impairment of assets. However, any such impairment would have an adverse effect on our results of operations.

We are subject to risks arising from our international operations, which may adversely affect our business, financial condition, and results of operations.

We derive a majority of our revenues from our international operations, and we plan to continue expanding our business in international markets in the future. We conduct significant sales and customer support operations directly and indirectly through our distributors and VARs in countries throughout the world and depend on the operations of our contract manufacturers and suppliers that are located outside of the United States. In addition, a portion of our R&D and our general and administrative operations are conducted outside the United States. In some countries, we may experience reduced intellectual property protection.

As a result of our international operations, we are affected by economic, regulatory, social, and political conditions in foreign countries, including the following:

- changes in general IT spending,
- the imposition of government controls, inclusive of critical infrastructure protection,

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- changes or limitations in trade protection laws or other regulatory requirements, which may affect our ability to import or export our products from various countries,

- the impact of the following on service provider and government spending patterns: political considerations, unfavorable changes in tax treaties or laws, natural disasters, epidemic disease, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, military actions, acts of terrorism, political and social unrest and difficulties in staffing and managing international operations. Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

Moreover, local laws and customs in many countries differ significantly from those in the United States. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or United States regulations applicable to us. There can be no assurance that our employees, contractors, channel partners, and agents will not take actions in violation of our policies and procedures, which are designed to ensure compliance with U.S. and foreign laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners, or agents could result in financial reporting problems, fines, penalties, or prohibition on the importation or exportation of our products, and could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Because a majority of our business is conducted outside the United States, we face exposure to adverse movements in non-U.S. currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial condition and results of operations.

The majority of our revenues and expenses are transacted in U.S. Dollars. We also have some transactions that are denominated in foreign currencies, primarily the British Pound, Euro, Indian Rupee, and Japanese Yen related to our sales and service operations outside of the United States. An increase in the value of the U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States in which we sell in U.S. Dollars, and a weakened U.S. Dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

Currently, we hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and periodically hedge anticipated foreign currency cash flows. The hedging activities undertaken by us are intended to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. However, such attempts to offset the impact of currency fluctuations are costly and no amount of hedging can be effective against all circumstances, including long-term declines in the value of the U.S. Dollar. If our attempts to hedge against these risks are not successful, or if long-term declines in the value of the U.S. Dollar persist, our financial condition and results of operations could be adversely impacted.

Integration of acquisitions could disrupt our business and harm our financial condition and stock price and may dilute the ownership of our stockholders.

We have made, and may continue to make, acquisitions in order to enhance our business. For example, in 2012, we acquired Contrail Systems Inc. ("Contrail") and Mykonos, and in 2010 we acquired Altor, Trapeze, SMobile, and Ankeena. Acquisitions involve numerous risks, including problems combining the purchased operations, technologies or products, unanticipated costs, diversion of management's attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience, and potential loss of key employees. There can be no assurance that we will be able to integrate successfully any businesses, products, technologies, or personnel that we might acquire. The integration of businesses that we may acquire is likely to be a complex, time-consuming, and expensive process and we may not realize the anticipated revenues or other benefits associated with our acquisitions if we fail to successfully manage and operate the acquired business. If we fail in any acquisition integration efforts and are unable to efficiently operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls, and human resources practices, our business, financial condition, and results of operations may be adversely affected.

Acquisitions may also require us to issue common stock or assume equity awards that dilute the ownership of our current stockholders, use a substantial portion of our cash resources, assume liabilities, record goodwill and amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our financial condition and results of operations.

If we fail to adequately evolve our financial and managerial control and reporting systems and processes, our ability to manage and grow our business will be negatively affected.

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market depends upon an effective planning and management process. We will need to continue to improve our financial and managerial control and our reporting systems and procedures in order to manage our business effectively in the future. If we fail to continue to implement improved systems and processes, our ability to manage our business, financial condition, and results of operations may be negatively affected.

Our products are highly technical and if they contain undetected errors or malware or do not meet customer quality expectations, our business could be adversely affected, and we may be subject to lawsuits or be required to pay damages in connection with any alleged or actual failure of our products and services.

Our products are highly technical and complex, are critical to the operation of many networks, and, in the case of our security products, provide and monitor network security and may protect valuable information. Our products have contained and may contain one or more undetected errors, defects, malware, or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by end-customers. Any errors, defects, malware or security vulnerabilities discovered in our products after commercial release could result in monetary penalties, loss of revenues or delay in revenue recognition, loss of customers, loss of future business and reputation, penalties, and increased service and warranty cost, any of which could adversely affect our business, financial condition, and results of operations. In addition, in the event an error, defect, malware, or vulnerability is attributable to a component supplied by a third-party vendor, we may not be able to recover from the vendor all of the costs of remediation that we may incur. In addition, we could face claims for product liability, tort, or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management’s attention. If our business liability insurance coverage is inadequate, or future coverage is unavailable on acceptable terms or at all, our financial condition and results of operations could be harmed. Moreover, if our products fail to satisfy our customers' quality expectations for whatever reason, the perception of and the demand for our products could be adversely affected.

If our products do not interoperate with our customers’ networks, installations will be delayed or cancelled and could harm our business.

Our products are designed to interface with our customers’ existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. Many of our customers’ networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products must interoperate with many or all of the products within these networks as well as future products in order to meet our customers’ requirements. If we find errors in the existing software or defects in the hardware used in our customers’ networks, we may need to modify our software or hardware to fix or overcome these errors so that our products will interoperate and scale with the existing software and hardware, which could be costly and could negatively affect our business, financial condition, and results of operations. In addition, if our products do not interoperate with those of our customers’ networks, demand for our products could be adversely affected or orders for our products could be cancelled. This could hurt our operating results, damage our reputation, and seriously harm our business and prospects.

Our products incorporate and rely upon licensed third-party technology, and if licenses of third-party technology do not continue to be available to us or become very expensive, our revenues and ability to develop and introduce new products could be adversely affected.

We integrate licensed third-party technology into certain of our products. From time to time, we may be required to license additional technology from third-parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The failure to comply with the terms of any license, including free open source software, may result in our inability to continue to use such license. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us, if possible, to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

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We sell our products to customers that use those products to build networks and IP infrastructure, and if the demand for network and IP systems does not continue to grow, then our business, financial condition, and results of operations could be adversely affected.

A substantial portion of our business and revenues depends on the growth of secure IP infrastructure and on the deployment of our products by customers that depend on the continued growth of IP services. As a result of changes in the economy capital spending or the building of network capacity in excess of demand, all of which have in the past particularly affected telecommunications service providers, spending on IP infrastructure can vary, which could have a material adverse effect on our business, financial condition, and results of operations. In addition, a number of our existing customers are evaluating the build-out of their next generation networks. During the decision-making period when the customers are determining the design of those networks and the selection of the equipment they will use in those networks, such customers may greatly reduce or suspend their spending on secure IP infrastructure. Such delays in purchases can make it more difficult to predict revenues from such customers can cause fluctuations in the level of spending by these customers and, even where our products are ultimately selected, can have a material adverse effect on our business, financial condition, and results of operations.

We are required to evaluate the effectiveness of our internal control over financial reporting, and any adverse results from such evaluation may adversely affect investor perception, our stock price and cause us to incur additional expense.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal control over financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have and will continue to incur significant expenses and devote management resources to Section 404 compliance on an ongoing basis. In the event that our Chief Executive Officer, Chief Financial Officer, or independent registered public accounting firm determine in the future that, our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions may be adversely affected if our financial statements are not reliable and could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and financial condition.

The investment of our cash balance and our investments in government and corporate debt securities are subject to risks, which may cause losses and affect the liquidity of these investments.

At March 31, 2013, we had $2,043.7 million in cash and cash equivalents and $1,628.3 million in short- and long-term investments. We have invested these amounts primarily in asset-backed securities, certificate of deposit, commercial paper, corporate debt securities, foreign government debt securities, government- sponsored enterprise obligations, money market funds, mutual funds, publicly-traded equity securities and U.S. government securities. Certain of these investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets and caused credit and liquidity issues at many financial institutions. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. These market risks associated with our investment portfolio may have a negative adverse effect on our liquidity, financial condition, and results of operations.

We may be unable to generate the cash flow to service our debt obligations, including the Senior Notes.

In March 2011, we issued senior unsecured notes for an aggregate principle amount of $1.0 billion (see discussion in Note 10, Long-Term Debt and Financing, in the Notes to Condensed Consolidated Financial Statements of this Report). We may not be able to generate sufficient cash flow to enable us to service our indebtedness, including the notes, or to make anticipated capital expenditures. Our ability to pay our expenses and satisfy our debt obligations, refinance our debt obligations and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors beyond our control. Based upon current levels of operations, we believe cash flow from operations and available cash will be adequate for the foreseeable future to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our indebtedness, including the senior notes. However, if we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt (including the senior notes) or obtain additional financing. There is no assurance that we will be able to refinance our debt, sell assets or borrow more money on terms acceptable to us, or at all.

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The indenture that governs the senior notes also contains various covenants that limit our ability and the ability of our subsidiaries to, among other things:

- incur liens;
- incur sale and leaseback transactions; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person

As a result of these covenants, we are limited in the manner in which we can conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. Accordingly, these restrictions may limit our ability to successfully operate our business. A failure to comply with these restrictions could lead to an event of default, which could result in an acceleration of the indebtedness. Our future operating results may not be sufficient to enable compliance with these covenants to remedy any such default. In addition, in the event of an acceleration, we may not have or be able to obtain sufficient funds to make any accelerated payments, including those under the senior notes.

Uninsured losses could harm our operating results.

We self-insure against many business risks and expenses, such as intellectual property litigation and our medical benefit programs, where we believe we can adequately self-insure against the anticipated exposure and risk or where insurance is either not deemed cost-effective or is not available. We also maintain a program of insurance coverage for various types of property, casualty, and other risks. We place our insurance coverage with various carriers in numerous jurisdictions. The types and amounts of insurance that we obtain vary from time to time and from location to location, depending on availability, cost, and our decisions with respect to risk retention. The policies are subject to deductibles, policy limits, and exclusions that result in our retention of a level of risk on a self-insurance basis. Losses not covered by insurance could be substantial and unpredictable and could adversely affect our financial condition and results of operations.

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

There were no unregistered sales of equity securities during the period covered by this Report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides a summary of stock repurchases during the three months ended March 31, 2013 (in millions, except per share amounts):

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share [1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
January 1 - January 31, 2013	—	$—	—	$568.2
February 1 - February 28, 2013	3.7	$22.19	3.6	$488.3
March 1 - March 31, 2013	2.6	$19.32	2.6	$438.3
Total	6.3	$21.01	6.2	

(1) Amounts include repurchases under our stock repurchase program and repurchases of our common stock for our employees in connection with net issuances of shares to satisfy minimum tax withholding obligations for the vesting of certain stock awards. The amount of shares of common stock repurchased from our employees in connection with net issuances was not significant during the three months ended March 31, 2013.

(2) Shares were repurchased under our stock repurchase program approved by the Board, which authorized us to purchase an aggregate of up to $1.0 billion of our common stock. Future share repurchases under this program will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time. As of March 31, 2013, our stock repurchase program had $438.3 million remaining authorized funds available for future stock repurchases.

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Item 6. Exhibits

Exhibit Number	Description of Document
12.1	Computation of Ratio of Earnings to Fixed Charges*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350*
101	The following materials from Juniper Network Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, and (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements*
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*

*Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant had duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Juniper Networks, Inc.

May 8, 2013	By: /s/ Robyn M. Denholm Robyn M. Denholm Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
May 8, 2013	By: /s/ Terrance F. Spidell Terrance F. Spidell Vice President, Corporate Controller (Duly Authorized Officer and Principal Accounting Officer)

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101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

*Filed herewith.