

JUNIPER NETWORKS INC  
Form 10-Q  
November 08, 2016

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

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34501

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

Delaware  
(State or other jurisdiction of incorporation or organization)

77-0422528  
(I.R.S. Employer Identification No.)

1133 Innovation Way  
Sunnyvale, California  
(Address of principal executive offices)  
(408) 745-2000  
(Registrant's telephone number, including area code)

94089  
(Zip code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

(Do not check if a smaller reporting company)

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

There were 380,323,150 shares of the Company's Common Stock, par value \$0.00001, outstanding as of November 4, 2016.



Juniper Networks, Inc.  
Table of Contents

PART I - FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> <u>Three and Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>Three and Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u> <u>September 30, 2016 and December 31, 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine Months Ended September 30, 2016 and September 30, 2015</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 4. Controls and Procedures</u>	<u>52</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>53</u>
<u>Item 1A. Risk Factors</u>	<u>53</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>72</u>
<u>Item 6. Exhibits</u>	<u>73</u>
<u>SIGNATURES</u>	<u>74</u>
<u>Exhibit Index</u>	<u>75</u>

Table of Contents

## 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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net revenues:				
Product	\$928.2	\$925.4	\$2,543.3	\$2,589.2
Service	357.1	323.2	1,061.2	949.0
Total net revenues	1,285.3	1,248.6	3,604.5	3,538.2
Cost of revenues:				
Product	349.6	322.6	955.8	923.1
Service	136.2	128.6	401.9	378.9
Total cost of revenues	485.8	451.2	1,357.7	1,302.0
Gross margin	799.5	797.4	2,246.8	2,236.2
Operating expenses:				
Research and development	251.8	247.0	750.7	747.3
Sales and marketing	242.9	235.3	718.4	687.9
General and administrative	54.0	57.1	172.0	168.6
Restructuring charges (benefits)	0.8	—	3.2	(0.5)
Total operating expenses	549.5	539.4	1,644.3	1,603.3
Operating income	250.0	258.0	602.5	632.9
Other expense, net	(13.4)	(8.4)	(47.2)	(41.3)
Income before income taxes	236.6	249.6	555.3	591.6
Income tax provision	64.2	51.9	151.5	155.7
Net income	\$172.4	\$197.7	\$403.8	\$435.9
Net income per share:				
Basic	\$0.45	\$0.52	\$1.06	\$1.11
Diluted	\$0.45	\$0.51	\$1.04	\$1.09
Shares used in computing net income per share:				
Basic	381.0	382.8	382.3	393.2
Diluted	384.5	389.2	387.9	401.2
Cash dividends declared per common stock	\$0.10	\$0.10	\$0.30	\$0.30

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015		2015	
Net income	\$172.4	\$197.7	\$403.8	\$435.9
Other comprehensive income, net of tax:				
Available-for-sale securities:				
Unrealized (losses) gains on available-for-sale securities, net of tax (provisions) benefit of (\$0.3) and \$0.4 during the three and nine months ended September 30, 2016, respectively, and (\$3.7) and (\$2.1) for the corresponding periods of the fiscal year ended December 31, 2015 ("fiscal 2015"), respectively	(0.6 )	(3.6 )	5.4	4.6
Reclassification adjustment for realized net gains on available-for-sale securities included in net income, net of tax provisions of zero and \$0.5 during the three and nine months ended September 30, 2016, respectively, and zero for the corresponding periods of fiscal 2015	(0.3 )	(0.1 )	(1.1 )	(0.6 )
Net change on available-for-sale securities, net of taxes	(0.9 )	(3.7 )	4.3	4.0
Cash flow hedges:				
Unrealized (losses) gains on cash flow hedges, net of tax (provisions) benefit of (\$0.6) and (\$1.2) during the three and nine months ended September 30, 2016, respectively, and \$0.5 and (\$0.2) for the corresponding periods of fiscal 2015, respectively	(0.3 )	(1.4 )	3.6	(5.4 )
Reclassification adjustment for realized net (gains) losses on cash flow hedges included in net income, net of tax provisions (benefit) of \$0.3 and \$0.4 during the three and nine months ended September 30, 2016, respectively, and (\$0.1) and zero for the corresponding periods of fiscal 2015, respectively	(0.9 )	1.8	(1.0 )	8.7
Net change on cash flow hedges, net of taxes	(1.2 )	0.4	2.6	3.3
Change in foreign currency translation adjustments	(6.9 )	(8.8 )	(1.1 )	(12.9 )
Other comprehensive (loss) income, net of tax	(9.0 )	(12.1 )	5.8	(5.6 )
Comprehensive income	\$163.4	\$185.6	\$409.6	\$430.3

See accompanying Notes to Condensed Consolidated Financial Statements



Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Balance Sheets

(In millions, except par values)

	September 30, 2016	December 31, 2015
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,689.0	\$ 1,420.9
Short-term investments	632.7	527.1
Accounts receivable, net of allowances	753.6	780.7
Prepaid expenses and other current assets	354.1	183.7
Total current assets	3,429.4	2,912.4
Property and equipment, net	1,067.0	1,021.0
Long-term investments	1,158.4	1,244.2
Restricted cash and investments	89.8	36.2
Purchased intangible assets, net	113.2	33.9
Goodwill	3,048.4	2,981.3
Other long-term assets	239.0	378.9
Total assets	\$ 9,145.2	\$ 8,607.9
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ —	\$ 299.9
Accounts payable	208.4	159.3
Accrued compensation	174.3	269.5
Deferred revenue	918.5	822.9
Other accrued liabilities	207.2	250.3
Total current liabilities	1,508.4	1,801.9
Long-term debt	2,133.1	1,637.5
Long-term deferred revenue	385.6	345.2
Long-term income taxes payable	205.1	187.3
Other long-term liabilities	140.5	61.6
Total liabilities	4,372.7	4,033.5
Commitments and contingencies (Note 15)		
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; 380.1 shares and 384.0 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	8,256.3	8,334.8
Accumulated other comprehensive loss	(13.4	) (19.2
Accumulated deficit	(3,470.4	) (3,741.2
Total stockholders' equity	4,772.5	4,574.4
Total liabilities and stockholders' equity	\$ 9,145.2	\$ 8,607.9

See accompanying Notes to Condensed Consolidated Financial Statements





Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$403.8	\$435.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	162.1	161.3
Depreciation, amortization, and accretion	151.9	131.5
Restructuring and non-cash acquisition charges (benefits)	6.0	(4.0 )
Deferred income taxes	41.5	10.0
Loss (gain) on investments and fixed assets, net	1.6	(6.4 )
Excess tax benefits from share-based compensation	(5.8 )	(7.4 )
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	36.6	(15.7 )
Prepaid expenses and other assets	(66.5 )	8.8
Accounts payable	52.1	(21.8 )
Accrued compensation	(77.0 )	(29.0 )
Income taxes payable	(7.5 )	108.2
Other accrued liabilities	(51.3 )	(45.0 )
Deferred revenue	124.7	49.1
Net cash provided by operating activities	772.2	775.5
Cash flows from investing activities:		
Purchases of property and equipment	(162.9 )	(154.9 )
Purchases of available-for-sale investments	(1,251.9 )	(1,147.6 )
Proceeds from sales of available-for-sale investments	985.1	625.9
Proceeds from maturities of available-for-sale investments	232.4	197.4
Purchases of trading investments	(4.3 )	(3.8 )
Proceeds from sales of privately-held investments	9.5	10.3
Purchases of investments in privately-held companies	(17.1 )	(5.4 )
Payments for business acquisitions, net of cash and cash equivalents acquired	(96.7 )	(3.5 )
Changes in restricted cash	(2.4 )	11.6
Net cash used in investing activities	(308.3 )	(470.0 )
Cash flows from financing activities:		
Proceeds from issuance of common stock	59.7	97.0
Purchases and retirement of common stock	(323.9 )	(1,056.8 )
Issuance of long-term debt, net	494.0	594.6
Payment of long-term debt	(300.0 )	—
Payment under lease obligations	(1.7 )	(0.4 )
Payment of acquired debt	(15.5 )	—
Excess tax benefits from share-based compensation	5.8	7.4
Payment of cash dividends	(114.4 )	(118.0 )
Net cash used in financing activities	(196.0 )	(476.2 )
Effect of foreign currency exchange rates on cash and cash equivalents	0.2	(15.4 )
Net increase (decrease) in cash and cash equivalents	268.1	(186.1 )
Cash and cash equivalents at beginning of period	1,420.9	1,639.6

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Cash and cash equivalents at end of period	\$1,689.0	\$1,453.5
--	-----------	-----------

See accompanying Notes to Condensed Consolidated Financial Statements

6

---

Table of Contents

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

Note 1. Basis of Presentation

Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. (the “Company” or “Juniper”) have been prepared in accordance with United States of America (“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. 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 and nine months ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, or any future period. The Condensed Consolidated Balance Sheet as of December 31, 2015, has been derived from the audited Consolidated Financial Statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

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, 2015.

As a result of the adoption of Accounting Standards Update (“ASU”) No. 2015-03 (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, the Company decreased both other long-term assets and long-term debt as of December 31, 2015 on the Condensed Consolidated Balance Sheets by \$11.3 million.

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.

Note 2. Summary of Significant Accounting Policies

There have been no material changes to the Company’s significant accounting policies 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, 2015.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-15 (Topic 230) Statement of Cash Flow: Classification of Certain Cash Receipts and Cash Payments. The pronouncement provides clarification guidance on certain cash flow presentation issues such as debt prepayment or debt extinguishment costs and contingent consideration payments made after a business combination and should be applied using a retrospective transition method for each period presented. For the provisions that are impracticable to apply retrospectively, those provisions may be applied prospectively as of the earliest date practicable. This pronouncement is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company is

currently evaluating the impact that this standard will have on its Consolidated Statements of Cash Flows.

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326) Financial Instruments - Credit Losses. The pronouncement was issued to provide more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment methodology. This pronouncement is effective for reporting periods beginning after December 15, 2019, and interim periods within those fiscal years, using a modified retrospective adoption method. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements and disclosures.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In March 2016, the FASB issued ASU No. 2016-09 (Topic 718) Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture, statutory tax withholding requirements, and classification on the statement of cash flows. ASU-2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-07 (Topic 323) Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"), which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. This update requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive loss at the date the investment becomes qualified for use of the equity method. ASU 2016-07 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-06 (Topic 815) Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"), which requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract (the "clearly and closely related" criterion). In addition, in March 2016, the FASB issued ASU No. 2016-05 (Topic 815), Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, ("ASU 2016-05"), which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-06 and ASU 2016-05 are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), Leases ("ASU 2016-02"), which requires recognition of lease assets and lease liabilities on the balance sheet by the lessees for lease contracts with a lease term of more than twelve months. ASU 2016-02 should be applied on a modified retrospective basis and is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its Consolidated Financial Statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires equity investments to be measured at

fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. Entities may choose a practical expedient, to estimate the fair value of certain equity securities that do not have readily determinable fair value. If the practical expedient is elected, these investments would be recorded at cost, less impairment and subsequently adjusted for observable price changes. The guidance also updates certain presentation and disclosure requirements. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is not permitted. The Company is currently evaluating the impact that ASU 2016-01 will have on its Consolidated Financial Statements and disclosures.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In July 2015, the FASB issued ASU No. 2015-11 (Subtopic 330) - Simplifying the Measurement of Inventory ("ASU 2015-11"), which provides guidance to companies who account for inventory using either the first-in, first-out ("FIFO") or average cost methods. The guidance states that companies should measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard will not have a significant impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606)—Revenue from Contracts with Customers ("ASU 2014-09") which provides guidance for revenue recognition. This ASU affects all contracts that the Company enters into with customers to transfer goods and services or for the transfer of nonfinancial assets. This ASU will supersede the revenue recognition requirements in Topic 605, and most industry specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. The standard's core principle is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In doing so, the Company will need to use additional judgment and estimates than under the existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of the new revenue standard from December 15, 2016 to December 15, 2017, with early adoption permitted as of annual reporting periods beginning after December 15, 2016. Accordingly, the ASU will be effective for the Company beginning fiscal year 2018. In addition, in March 2016, the FASB issued ASU No. 2016-08 (Topic 606) Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"), which clarifies the principal-versus-agent guidance in Topic 606 and requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. In April 2016, the FASB also issued ASU No. 2016-10 (Topic 606) Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing ("ASU 2016-10"), which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB also issued ASU No. 2016-12 (Topic 606) Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"), which amends the revenue guidance to clarify measurement and presentation as well as to include some practical expedients and policy elections. There are two transition methods available under the new standard, either cumulative effect or retrospective. ASU 2016-08, ASU 2016-10, and ASU 2016-12 must be adopted concurrently with the adoption of ASU 2014-09. The Company is currently evaluating the impact of the adoption of this standard on its Consolidated Financial Statements and disclosures.

Note 3. Business Combinations

During the nine months ended September 30, 2016, the Company completed two business combinations. The Company's Condensed Consolidated Financial Statements include the operating results of these business combinations from the date of each acquisition. Pro forma results of operations for these acquisitions have not been presented as the financial impact to the Company's consolidated results of operations are not material.

Additional information, such as income tax and other contingencies, existing as of the acquisition dates but unknown to the Company may become known during the remainder of the measurement period, not to exceed 12 months from the acquisition date, which may result in changes to the amounts and allocations recorded.

Aurrion, Inc.

On August 9, 2016, the Company acquired the remaining ownership interest in Aurrion, Inc. ("Aurrion"), increasing its ownership from 18% to 100%, for \$74.3 million of cash. The acquisition of Aurrion, a privately-held provider of fabless silicon photonic technology, is expected to strengthen the Company's long-term competitive advantage in cost-effective, high-density, high-speed networks.

Prior to the acquisition, the Company had a pre-existing investment in Aurrion's equity and also held convertible debt that were remeasured to fair value of \$17.2 million and \$10.4 million, respectively, based upon the perspective of a market participant when estimating the fair value.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Additionally, under the terms of the acquisition agreement, the Company assumed share-based awards for continuing employees from the acquisition of Aurrion, which were granted in contemplation of future services. The fair value of these share-based awards was \$55.0 million, which will be expensed as share-based compensation over the remaining service period.

## BTI Systems Inc.

On April 1, 2016, the Company acquired the remaining ownership interest in BTI Systems Inc. ("BTI"), increasing its ownership from 12% to 100%, for \$25.8 million of cash. BTI is a privately-held provider of cloud and metro networking systems and software to content, cloud, and service providers. The Company acquired BTI on the expectation that this would help to accelerate the Company's ability to deliver open and automated packet optical transport solutions.

Prior to the acquisition, the Company had a pre-existing investment in BTI's equity and remeasured the investment to its fair value of \$17.1 million, which was based upon the perspective of a market participant when estimating the fair value. The Company also held \$0.9 million of convertible debt measured at fair value and settled upon acquisition. The Company also repaid upon acquisition \$18.6 million of certain outstanding BTI liabilities assumed.

Additionally, under the terms of the acquisition agreement, the Company assumed share-based awards for continuing employees from the acquisition of BTI, which were granted in contemplation of future services. The fair value of these share-based awards was \$8.6 million, which will be expensed as share-based compensation over the remaining service period.

The total purchase consideration, consisting of cash consideration paid and the fair value of previous investments, of \$101.9 million and \$43.8 million for Aurrion and BTI, respectively, were allocated as follows (in millions):

	Aurrion	BTI	Total
Net tangible assets acquired/(liabilities) assumed <sup>(1)</sup>	\$ 6.0	\$(19.7)	\$(13.7)
Intangible assets acquired	49.0	43.3	92.3
Goodwill <sup>(1)</sup>	46.9	20.2	67.1
Total	\$ 101.9	\$ 43.8	\$ 145.7

<sup>(1)</sup> During the three months ended September 30, 2016, the Company recorded insignificant adjustments to the preliminary fair value of certain assets acquired and liabilities assumed in the BTI acquisition. These adjustments were based on information obtained in the current period about facts and circumstances that existed at the acquisition date.

The goodwill recognized for these acquisitions was primarily attributable to expected synergies and is not deductible for U.S. federal income tax purposes.

The Company recognized \$2.8 million and \$10.7 million of acquisition-related costs during the three and nine months ended September 30, 2016, respectively. These acquisition-related costs were expensed in the period incurred within general and administrative expense in the Company's Condensed Consolidated Statements of Operations. There were no such charges during the three and nine months ended September 30, 2015.

The Company also recorded \$0.5 million and \$2.9 million of restructuring charges during the three and nine months ended September 30, 2016, related to severance costs for certain former BTI employees which were recorded in restructuring charges (benefits) in the Condensed Consolidated Statements of Operations.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Intangible Assets Acquired

A summary of the Company's intangible assets acquired through the business combinations completed during the nine months ended September 30, 2016 was as follows (in millions, except years):

	Weighted Average Estimated Useful Life (In Years)	Amount
Finite-lived intangible assets:		
Existing technology	8	\$ 37.1
Customer relationships	8	5.3
Trade name	1	0.6
Backlog	1	0.3
Total intangible assets with finite lives		43.3
Indefinite-lived intangible assets:		
In-process research and development ("IPR&D")		49.0
Total intangible assets acquired		\$ 92.3

As a result of the Aurrion acquisition, the Company acquired IPR&D consisting of existing research and development projects that have not yet reached technological feasibility at the time of the acquisition. The acquired IPR&D involves technology for cost-effective, high-speed networks. The IPR&D was valued using the multi-period excess earnings method under the income approach by discounting forecasted cash flows directly related to the products expected to result from the associated project.

Intangible assets related to IPR&D projects are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. Indefinite-lived intangibles are not amortized into results of operations but instead are evaluated for impairment. If and when development is complete, the associated assets would be deemed finite-lived and would then be amortized as cost of revenues over their respective estimated useful lives at that point in time. If the research and development project is abandoned, the acquired IPR&D assets are written off and charged to expense in the period of abandonment.

Table of Contents

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 Company's unrealized gains and losses and fair value of investments designated as available-for-sale and trading securities as of September 30, 2016 and December 31, 2015 were as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of September 30, 2016				
Fixed income securities:				
Asset-backed securities	\$ 326.8	\$ 0.6	\$ —	\$ 327.4
Certificates of deposit	49.9	—	—	49.9
Commercial paper	52.4	—	—	52.4
Corporate debt securities	866.1	1.7	(0.5 )	867.3
Foreign government debt securities	38.5	—	—	38.5
Government-sponsored enterprise obligations	127.3	0.1	—	127.4
U.S. government securities	331.8	0.2	(0.1 )	331.9
Total fixed income securities	1,792.8	2.6	(0.6 )	1,794.8
Money market funds	413.0	—	—	413.0
Mutual funds	8.1	—	—	8.1
Publicly-traded equity securities	4.5	0.8	—	5.3
Total available-for-sale securities	2,218.4	3.4	(0.6 )	2,221.2
Trading securities in mutual funds <sup>(1)</sup>	20.5	—	—	20.5
Total	\$ 2,238.9	\$ 3.4	\$ (0.6 )	\$ 2,241.7
Reported as:				
Cash equivalents	\$ 379.0	\$ —	\$ —	\$ 379.0
Restricted Investments <sup>(2)</sup>	71.6	—	—	71.6
Short-term investments	631.8	1.0	(0.1 )	632.7
Long-term investments	1,156.5	2.4	(0.5 )	1,158.4
Total	\$ 2,238.9	\$ 3.4	\$ (0.6 )	\$ 2,241.7

<sup>(1)</sup> Balance consists of the Company's non-qualified deferred compensation plan assets.

<sup>(2)</sup> Includes \$4.0 million of short-term restricted investments classified as prepaid expenses and other on the Condensed Consolidated Balance Sheets.

Table of Contents

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, 2015				
Fixed income securities:				
Asset-backed securities	\$ 312.2	\$ —	\$ (0.5 )	\$ 311.7
Certificates of deposit	9.6	—	—	9.6
Commercial paper	17.7	—	—	17.7
Corporate debt securities	913.8	0.2	(2.6 )	911.4
Foreign government debt securities	16.5	—	—	16.5
Government-sponsored enterprise obligations	204.1	—	(0.4 )	203.7
U.S. government securities	278.0	—	(0.4 )	277.6
Total fixed income securities	1,751.9	0.2	(3.9 )	1,748.2
Money market funds	29.7	—	—	29.7
Mutual funds	6.1	0.1	—	6.2
Publicly-traded equity securities	8.7	0.8	(0.7 )	8.8
Total available-for-sale securities	1,796.4	1.1	(4.6 )	1,792.9
Trading securities in mutual funds <sup>(1)</sup>	17.7	—	—	17.7
Total	\$ 1,814.1	\$ 1.1	\$ (4.6 )	\$ 1,810.6
Reported as:				
Cash equivalents	\$ 3.4	\$ —	\$ —	\$ 3.4
Restricted Investments	35.8	0.1	—	35.9
Short-term investments	527.2	0.9	(1.0 )	527.1
Long-term investments	1,247.7	0.1	(3.6 )	1,244.2
Total	\$ 1,814.1	\$ 1.1	\$ (4.6 )	\$ 1,810.6

<sup>(1)</sup> Balance consists of the Company's non-qualified deferred compensation plan assets.

The contractual maturities of the Company's total fixed income securities as of September 30, 2016 were as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due in less than one year	\$ 636.3	\$ 0.2	\$ (0.1 )	\$ 636.4
Due between one and five years	1,156.5	2.4	(0.5 )	1,158.4
Total	\$ 1,792.8	\$ 2.6	\$ (0.6 )	\$ 1,794.8

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company's available-for-sale securities that were in an unrealized loss position as of September 30, 2016 and December 31, 2015 were as follows (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 September 30, 2016						
Fixed income securities:						
Corporate debt securities	\$195.5	\$ (0.3 )	\$102.5	\$ (0.2 )	\$298.0	\$ (0.5 )
U.S. government securities	102.2	(0.1 )	—	—	102.2	(0.1 )
Total available-for-sale securities	\$297.7	\$ (0.4 )	\$102.5	\$ (0.2 )	\$400.2	\$ (0.6 )
As of December 31, 2015						
Fixed income securities:						
Asset-backed securities	\$274.2	\$ (0.4 )	\$30.8	\$ (0.1 )	\$305.0	\$ (0.5 )
Certificates of deposit <sup>(*)</sup>	3.3	—	—	—	3.3	—
Corporate debt securities	687.9	(2.3 )	58.9	(0.3 )	746.8	(2.6 )
Foreign government debt securities <sup>(*)</sup>	9.5	—	—	—	9.5	—
Government-sponsored enterprise obligations	185.3	(0.4 )	—	—	185.3	(0.4 )
U.S. government securities	259.3	(0.4 )	—	—	259.3	(0.4 )
Total fixed income securities	1,419.5	(3.5 )	89.7	(0.4 )	1,509.2	(3.9 )
Publicly-traded equity securities	2.1	(0.7 )	—	—	2.1	(0.7 )
Total available-for-sale securities	\$1,421.6	\$ (4.2 )	\$89.7	\$ (0.4 )	\$1,511.3	\$ (4.6 )

(\*) Balances less than 12 months include investments that were in an insignificant unrealized loss position as of December 31, 2015.

The Company had 221 and 682 investments in unrealized loss positions as of September 30, 2016 and December 31, 2015, respectively. The gross unrealized losses related to these investments were primarily due to changes in market interest rates and stock prices. The Company periodically 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 unrealized loss position to facilitate its evaluation.

For available-for-sale debt securities that have unrealized losses, the Company evaluates whether (i) it has the intention to sell any of these investments and (ii) whether it is more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. As of September 30, 2016, the Company anticipates that it will recover the entire amortized cost basis of such available-for-sale debt securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three and nine months ended September 30, 2016 and September 30, 2015.

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 and nine months ended September 30, 2016 and September 30, 2015, there were no other-than-temporary impairments associated with these investments.

During the three and nine months ended September 30, 2016 and September 30, 2015, there were no material gross realized gains or losses from either available-for-sale securities or from trading securities.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Restricted Cash and Investments

The Company has restricted cash and investments for: (i) amounts held in escrow accounts, as required in connection with certain acquisitions completed primarily between 2014 and 2016; (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; (iii) the Directors and Officers indemnification trust ("D&O Trust"); (iv) amounts held under the Company's short-term disability plan in California; and (v) amounts under the non-qualified deferred compensation ("NQDC") plan for officers and other senior-level employees. The restricted investments are designated as available-for-sale securities except relating to the NQDC plan which are designated as trading securities. As of September 30, 2016, restricted cash and investments of \$20.9 million and \$89.8 million were included in prepaid expenses and other current assets and restricted cash and investments, respectively, on the Condensed Consolidated Balance Sheets.

Investments in Privately-Held Companies

The Company has investments in privately-held companies, which include debt and redeemable preferred stock securities that are carried at fair value, and non-redeemable preferred stock securities and common stock that are carried at cost. The Company reviews these investments to identify and evaluate investments that have an indication of possible impairment.

As of September 30, 2016 and December 31, 2015, the carrying values of the Company's investments in privately-held companies of \$61.1 million and \$102.4 million, respectively, were included in other long-term assets in the Condensed Consolidated Balance Sheets. As of September 30, 2016 and December 31, 2015, the carrying value of the investments in privately-held companies includes debt and redeemable preferred stock securities of \$43.7 million and \$60.2 million, respectively. For the three and nine months ended September 30, 2016 and September 30, 2015, there were no unrealized gains or losses associated with the privately-held debt and redeemable preferred stock securities.

The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. During the three and nine months ended September 30, 2016, the Company determined that certain privately-held investments were other than-temporarily impaired, resulting in impairment charges of \$4.5 million and \$9.6 million, respectively, that were recorded within other expense, net in the Condensed Consolidated Statement of Operations. No such charges were recorded during the three and nine months ended September 30, 2015.



Table of Contents

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

A summary of assets and liabilities measured at fair value on a recurring basis and as reported in the Condensed Consolidated Balance Sheets were as follows (in millions):

	Fair Value Measurements at September 30, 2016 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	\$—	\$ 327.4	\$ —	\$327.4
Certificates of deposit	—	49.9	—	49.9
Commercial paper	—	52.4	—	52.4
Corporate debt securities	—	867.3	—	867.3
Foreign government debt securities	—	38.5	—	38.5
Government-sponsored enterprise obligations	—	127.4	—	127.4
Money market funds <sup>(1)</sup>	413.0	—	—	413.0
Mutual funds <sup>(2)</sup>	8.1	—	—	8.1
Publicly-traded equity securities	5.3	—	—	5.3
U.S. government securities	320.9	11.0	—	331.9
Total available-for-sale securities	747.3	1,473.9	—	2,221.2
Trading securities in mutual funds <sup>(3)</sup>	20.5	—	—	20.5
Privately-held debt and redeemable preferred stock securities			43.7	43.7
Derivative assets:				
Foreign exchange contracts	—	2.7	—	2.7
Total assets measured at fair value	\$767.8	\$ 1,476.6	\$ 43.7	\$2,288.1
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	\$—	\$ (0.9 )	\$ —	\$ (0.9 )
Total liabilities measured at fair value	\$—	\$ (0.9 )	\$ —	\$ (0.9 )
Total assets measured at fair value, reported as:				
Cash equivalents	\$370.0	\$ 9.0	\$ —	\$379.0
Restricted investments	71.6	—	—	71.6
Short-term investments	173.1	459.6	—	632.7
Long-term investments	153.1	1,005.3	—	1,158.4

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Prepaid expenses and other current assets	—	2.7	—	2.7
Other long-term assets	—	—	43.7	43.7
Total assets measured at fair value	\$767.8	\$ 1,476.6	\$ 43.7	\$2,288.1

Total liabilities measured at fair value, reported as:

Other accrued liabilities	\$—	\$ (0.9 )	\$ —	\$ (0.9 )
Total liabilities measured at fair value	\$—	\$ (0.9 )	\$ —	\$ (0.9 )

- 
- (1) Balance includes \$43.0 million of restricted investments measured at fair value related to the Company's D&O Trust and acquisition-related escrows.
- (2) Balance relates to restricted investments measured at fair value related to the Company's India Gratuity Trust.
- (3) Balance relates to restricted investments measured at fair value related to the Company's NQDC plan assets.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Fair Value Measurements at December 31, 2015 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	\$—	\$ 311.7	\$ —	\$311.7
Certificates of deposit	—	9.6	—	9.6
Commercial paper	—	17.7	—	17.7
Corporate debt securities	—	911.4	—	911.4
Foreign government debt securities	—	16.5	—	16.5
Government-sponsored enterprise obligations	—	203.7	—	203.7
Money market funds <sup>(1)</sup>	29.7	—	—	29.7
Mutual funds <sup>(2)</sup>	6.2	—	—	6.2
Publicly-traded equity securities	8.8	—	—	8.8
U.S. government securities	247.3	30.3	—	277.6
Total available-for-sale securities	292.0	1,500.9	—	1,792.9
Trading securities in mutual funds <sup>(3)</sup>	17.7	—	—	17.7
Privately-held debt and redeemable preferred stock securities	—	—	60.2	60.2
Derivative assets:				
Foreign exchange contracts	—	0.4	—	0.4
Total assets measured at fair value	\$309.7	\$ 1,501.3	\$ 60.2	\$1,871.2
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	\$—	\$ (1.3 )	\$ —	\$ (1.3 )
Total liabilities measured at fair value	\$—	\$ (1.3 )	\$ —	\$ (1.3 )
Total assets measured at fair value, reported as:				
Cash equivalents	\$—	\$ 3.4	\$ —	\$3.4
Restricted investments	35.9	—	—	35.9
Short-term investments	108.2	418.9	—	527.1
Long-term investments	165.6	1,078.6	—	1,244.2
Prepaid expenses and other current assets	—	0.4	—	0.4
Other long-term assets	—	—	60.2	60.2
Total assets measured at fair value	\$309.7	\$ 1,501.3	\$ 60.2	\$1,871.2

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Total liabilities measured at fair value, reported as:

Other accrued liabilities	\$—	\$ (1.3 )	\$ —	\$ (1.3 )
Total liabilities measured at fair value	\$—	\$ (1.3 )	\$ —	\$ (1.3 )

- 
- (1) Balance includes \$29.7 million of restricted investments measured at fair value related to the Company's D&O Trust and acquisition-related escrows.
- (2) Balance relates to restricted investments measured at fair value related to the Company's India Gratuity Trust.
- (3) Balance relates to investments measured at fair value related to the Company's NQDC plan assets.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets. The Company's derivative instruments are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. The Company's policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 at the beginning of the quarter in which a change in circumstances resulted in a transfer. During the three and nine months ended September 30, 2016, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

All of the Company's privately-held debt and redeemable preferred stock securities are classified as Level 3 assets due to the lack of observable inputs to determine fair value. The Company estimates the fair value of its privately-held debt investments on a recurring basis using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and the investee's capital structure. During the three and nine months ended September 30, 2016, the Company purchased \$6.6 million and \$17.1 million, respectively, related to debt securities of privately-held companies.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain of the Company's assets, including intangible assets, goodwill, and investments in privately-held companies (non-redeemable preferred stock securities and common stock), are measured at fair value on a nonrecurring basis, when they are deemed to be other-than-temporarily impaired. Investments in privately-held companies, which are normally carried at cost, are measured at fair value on a nonrecurring basis due to events and circumstances that the Company identifies as significantly impacting the fair value of investments. The Company estimates the fair value of its investments in privately-held companies using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and the investee's capital structure. Purchased intangible assets are measured at fair value primarily using discounted cash flow projections.

As of September 30, 2016, certain investments in privately-held companies with a carrying value of \$6.1 million were impaired and were written-down to their fair value of \$1.6 million and were classified as Level 3 assets due to lack of observable inputs to determine fair value. The impairment charges of \$4.5 million were recorded to other expense, net in the Condensed Consolidated Statements of Operations. As of December 31, 2015, there were no investments in privately-held companies measured at fair value on a nonrecurring basis.

As of September 30, 2016 and December 31, 2015, the Company had no 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. As of September 30, 2016 and December 31, 2015, the estimated fair value of the Company's long-term debt in the Condensed Consolidated Balance Sheets was approximately \$2,283.6 million and \$1,946.7 million, respectively, based on observable market inputs (Level 2). The carrying value of the promissory note, issued to the Company in connection with the previously-completed sale of

Junos Pulse, of \$132.9 million approximates its fair value, of which \$75.0 million is recorded in prepaid expenses and other current assets and the remaining balance is recorded within other long-term assets in the Condensed Consolidated Balance Sheets as of September 30, 2016. As of December 31, 2015, the carrying value of the promissory note of \$132.9 million was recorded in other long-term assets in the Condensed Consolidated Balance Sheets. The promissory note is classified as a Level 3 asset due to the lack of observable inputs to determine fair value. See Note 8, Other Financial Information, for further information on the promissory note.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## 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 the Company's foreign currency derivatives is summarized as follows (in millions):

	As of	
	September 30,	December 31,
	2016	2015
Cash flow hedges	\$ 147.9	\$ 116.8
Non-designated derivatives	—	71.8
Total	\$ 147.9	\$ 188.6

## Cash Flow Hedges

The Company uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of revenues and operating expenses. The derivatives are intended to hedge a portion of the U.S. Dollar equivalent of the Company's planned cost of revenues and operating expenses denominated in certain 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, and upon occurrence of the forecasted transaction, is subsequently reclassified into the cost of revenues or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments in other expense, net, on 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 twelve months.

See Note 5, Fair Value Measurements, for the fair values of the Company's derivative instruments in the Condensed Consolidated Balance Sheets.

During the three and nine months ended September 30, 2016, the Company recognized unrealized gains of \$0.3 million and \$4.8 million, respectively, in accumulated other comprehensive loss for the effective portion of its derivative instruments and reclassified a realized gain during the three and nine months ended September 30, 2016 of \$1.2 million and \$1.4 million, respectively, from accumulated other comprehensive loss to cost of revenues and operating expense in the Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2015, the Company recognized losses of \$1.9 million and \$5.2 million, respectively, in accumulated other comprehensive loss for the effective portion of its derivative instruments and reclassified a realized loss of \$1.9 million and \$8.7 million, respectively, from accumulated other comprehensive loss to cost of revenues and operating expense in the Condensed Consolidated Statements of Operations.

The ineffective portion of the Company's derivative instruments recognized in its Condensed Consolidated Statements of Operations was not material during the three and nine months ended September 30, 2016 and September 30, 2015.

## 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 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 remeasurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. These foreign exchange forward contracts typically have maturities within two months.

During the three and nine months ended September 30, 2016, the Company recognized a net gain of \$0.3 million and a net loss of \$0.9 million, respectively, on non-designated derivative instruments within other expense, net in its Condensed Consolidated Statement of Operations. During the three and nine months ended September 30, 2015, the Company recognized net losses of \$0.1



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

million and \$0.4 million, 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 agreements containing provisions on netting 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 September 30, 2016 and December 31, 2015, the potential effect of rights of setoff associated with derivative instruments was not material. The Company is neither required to pledge nor entitled to receive cash collateral related to these derivative transactions.

## Note 7. Goodwill and Purchased Intangible Assets

## Goodwill

Goodwill activity during the nine months ended September 30, 2016 was as follows (in millions):

Balance as of December 31, 2015	\$2,981.3
Additions due to business combinations	67.1
Balance as of September 30, 2016	\$3,048.4

There were no impairments to goodwill during the three and nine months ended September 30, 2016 and September 30, 2015.

## Purchased Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairments and Other Charges	Net
As of September 30, 2016				
Finite-lived intangible assets:				
Technologies and patents	\$604.8	\$ (501.9 )	\$ (49.9 )	\$53.0
Customer contracts, support agreements, and related relationships	83.4	(70.0 )	(2.8 )	10.6
Other	2.0	(1.4 )	—	0.6
Total intangible assets with finite lives	690.2	(573.3 )	(52.7 )	64.2
Indefinite-lived intangible assets:				
IPR&D	49.0	—	—	49.0
Total purchased intangible assets	\$739.2	\$ (573.3 )	\$ (52.7 )	\$113.2

As of December 31, 2015

Intangible assets with finite lives:

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Technologies and patents	\$567.7	\$ (491.8	)	\$ (49.9	)	\$26.0
Customer contracts, support agreements, and related relationships	78.1	(67.8	)	(2.8	)	7.5
Other	1.1	(0.7	)	—	)	0.4
Total purchased intangible assets	\$646.9	\$ (560.3	)	\$ (52.7	)	\$33.9

20

---

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The amortization of intangible assets included in the Condensed Consolidated Statements of Operations was as follows (in millions):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of revenues	\$ 3.5	\$ 4.7	\$ 9.5	\$ 20.2
Operating expenses:				
Sales and marketing	0.8	0.7	2.1	2.1
General and administrative	0.5	0.2	1.3	0.9
Total operating expenses	1.3	0.9	3.4	3.0
Total	\$ 4.8	\$ 5.6	\$ 12.9	\$ 23.2

During the nine months ended September 30, 2015, the Company recorded \$5.6 million to cost of revenues in the Condensed Consolidated Statements of Operations, related to the acceleration of the end-of-life of certain intangible assets. There were no such charges during the three and nine months ended September 30, 2016 and the three months ended September 30, 2015.

There were no impairment charges related to purchased intangible assets during the three and nine months ended September 30, 2016 and September 30, 2015.

As of September 30, 2016, the estimated future amortization expense of purchased intangible assets with finite lives is as follows (in millions):

Years Ending December 31,	Amount
Remainder of 2016	\$ 3.3
2017	12.5
2018	10.4
2019	10.2
2020	10.1
Thereafter	17.7
Total	\$ 64.2

## Note 8. Other Financial Information

## Inventories

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 to be used in the manufacturing process, and finished goods inventory in transit. Inventories are reported within both prepaid expenses and other current assets, and other long-term assets in the Condensed Consolidated Balance Sheets. Total inventories consisted of the following (in millions):

As of	Amount
September 30, 2016	\$ 30.0
September 30, 2015	\$ 30.0

Production materials	\$86.8	\$ 61.9
Finished goods	19.4	13.1
Inventories	\$106.2	\$ 75.0

21

---

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Other Long-Term Assets

Other long-term assets consisted of the following (in millions):

	As of	
	September 30,	December 31,
	2016	2015
Investments in privately-held companies	\$61.1	\$ 102.4
Promissory note in connection with the sale of Junos Pulse	57.9	132.9
Federal income tax receivable	40.9	28.9
Deferred tax asset	20.1	55.9
Inventory	6.5	8.4
Prepaid costs, deposits, and other <sup>(*)</sup>	52.5	50.4
Other long-term assets	\$239.0	\$ 378.9

On January 1, 2016, the Company adopted ASU 2015-03. As a result, debt issuance costs included in prepaid <sup>(\*)</sup> costs, deposits, and other were reclassified to long-term debt as of December 31, 2015 to conform to the current-year presentation.

On October 1, 2014, the Company completed the sale of its Junos Pulse product portfolio. The Company received total consideration of \$230.7 million, of which \$105.7 million was in cash, net of a \$19.3 million working capital adjustment, and \$125.0 million was in the form of a non-contingent interest-bearing promissory note due to the Company on April 1, 2016 (the "Pulse Note"). On October 2, 2015, the Company and the issuer of the Pulse Note mutually agreed to amend the original terms of the Pulse Note to, among other things, extend the maturity date from April 1, 2016 to December 31, 2018, provide that interest due on the Pulse Note through December 31, 2015 shall be paid in kind by increasing the outstanding principal amount of the note and increase the interest rate on the Pulse Note. In addition, under the amended terms of the Pulse Note, the issuer is required to make a minimum payment of \$75.0 million on or prior to April 1, 2017, less any principal amount previously pre-paid to the Company. The \$75.0 million portion of the note receivable is classified within prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets. The remaining balance, along with interest paid in kind, is classified as a long-term asset based on expected collection beyond twelve months from the Condensed Consolidated Balance Sheet date.

The Company considers notes receivable to be impaired when, based on current information and events, it is probable that the Company will not be able to collect the scheduled payments of principal or interest when due. Further, the Company measures any impairment to the Pulse Note based on the present value of expected cash flows, which are discounted at the note's effective interest rate, compared to the recorded investment of the note, including principal and accrued interest. Based on the impairment assessment, no impairment charge was required to the Pulse Note as of September 30, 2016. Interest income on the Pulse Note is accrued and credited to interest income as it is earned, unless it is not probable the Company will collect the amounts due or if the present value of expected cash flows is less than the recorded investment. During the three and nine months ended September 30, 2016, the related amount of interest income recognized was \$2.7 million and \$8.0 million, respectively. During the three and nine months ended September 30, 2015, the related amount of interest income recognized was \$1.6 million and \$4.7 million, respectively.

## Warranties

The Company accrues for warranty costs based on associated material, labor for customer support, and overhead at the time revenue is recognized. This accrual is reported within other accrued liabilities in the Condensed Consolidated Balance Sheets. Changes in the Company's warranty reserve during the nine months ended September 30, 2016 were

as follows (in millions):

Balance as of December 31, 2015	\$28.4
Provisions made during the period	19.9
Actual costs incurred during the period	(20.9 )
Balance as of September 30, 2016	\$27.4

22

---

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Deferred Revenue

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

	As of	
	September 30, 2016	December 31, 2015
Deferred product revenue:		
Undelivered product commitments and other product deferrals	\$250.4	\$ 210.1
Distributor inventory and other sell-through items	92.8	81.8
Deferred gross product revenue	343.2	291.9
Deferred cost of product revenue	(45.3 )	(51.6 )
Deferred product revenue, net	297.9	240.3
Deferred service revenue	1,006.2	927.8
Total	\$1,304.1	\$ 1,168.1
Reported as:		
Current	\$918.5	\$ 822.9
Long-term	385.6	345.2
Total	\$1,304.1	\$ 1,168.1

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. In circumstances when costs are deferred, deferred product revenue is recorded net of the related costs of product revenue. Deferred service revenue represents billable amounts for service contracts, which include technical support, hardware and software maintenance, professional services, and training, for which services have not been rendered.

## Other Expense, Net

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest income	\$9.1	\$5.7	\$25.5	\$16.3
Interest expense	(25.1 )	(21.6 )	(72.6 )	(61.9 )
Gain on investments, net	1.9	6.0	0.1	6.8
Other	0.7	1.5	(0.2 )	(2.5 )
Other expense, net	\$(13.4)	\$(8.4)	\$(47.2)	\$(41.3)

Interest income primarily includes interest earned on the Company's cash, cash equivalents, investments, and promissory note issued to the Company in connection with the sale of Junos Pulse. Interest expense primarily includes interest, net of capitalized interest expense, from short-term debt, long-term debt, and customer financing arrangements. Gain on investments, net, primarily includes gains and losses from the sale of investments in privately-held companies, including any impairment charges recorded on these investments. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items.





Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 9. Debt and Financing

## Long-Term Debt

The Company's long-term debt was summarized as follows (in millions, except percentages):

	As of September 30, 2016		Effective Interest Rates
	Amount		
Senior Notes:			
3.125% fixed-rate notes, due February 2019	\$350.0	3.36	%
3.300% fixed-rate notes, due June 2020	300.0	3.47	%
4.600% fixed-rate notes, due March 2021	300.0	4.69	%
4.500% fixed-rate notes, due March 2024, issued March 2014	350.0	4.63	%
4.500% fixed-rate notes, due March 2024, issued February 2016	150.0	4.87	%
4.350% fixed-rate notes, due June 2025	300.0	4.47	%
5.950% fixed-rate notes, due March 2041	400.0	6.03	%
Total senior notes	2,150.0		
Unaccreted discount and debt issuance costs	(16.9 )		
Total	\$2,133.1		

In February 2016, the Company issued \$350.0 million aggregate principal amount of 3.125% senior notes due 2019 ("2019 Notes") and \$150.0 million aggregate principal amount of 4.50% senior notes due 2024 ("2024 Notes"). In March 2015, the Company issued \$300.0 million aggregate principal amount of 3.30% senior notes due 2020 ("2020 Notes") and \$300.0 million aggregate principal amount of 4.35% senior notes due 2025 ("2025 Notes"). In addition, in March 2014, the Company issued \$350.0 million aggregate principal amount of the 2024 Notes, which form a single series and are fully fungible with the 2024 Notes issued in February 2016. In March 2011, the Company issued \$300.0 million aggregate principal amount of 4.60% senior notes due 2021 ("2021 Notes") and \$400.0 million aggregate principal amount of 5.95% senior notes due 2041 ("2041 Notes").

The "2019 Notes", "2020 Notes," "2021 Notes," "2024 Notes", "2025 Notes" and "2041 Notes" collectively the "Notes" are the Company's senior unsecured and unsubordinated obligations, ranking equally in right of payment to all of the Company's existing and future senior unsecured and unsubordinated indebtedness and senior in right of payment to any of the Company's future indebtedness that is expressly subordinated to the Notes.

The Company may redeem the 2020 Notes and 2025 Notes, either in whole or in part, at any time one month prior to the maturity date of the 2020 Notes, and three months prior to the maturity date of the 2025 Notes, at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the 2020 Notes and 2025 Notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments discounted at the Treasury rate plus 30 basis points for the 2020 Notes, or the Treasury rate plus 37.5 basis points for the 2025 Notes, plus, in the case of each of the clauses (i) and (ii) above, accrued and unpaid interest, if any. At any time on or after May 15, 2020, in the case of the 2020 Notes, and at any time on or after March 15, 2025, in the case of the 2025 Notes, the Company may redeem Notes of such series, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2020 Notes and the 2025 Notes to be redeemed, plus accrued and unpaid interest, if any. The Company may redeem the other Notes, either in whole or in part, at any time at a redemption price equal to the greater of (i) 100% of

the aggregate principal amount of the Notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments discounted to the redemption date, plus, in either case, accrued and unpaid interest, if any.

In the event of a change of control repurchase event, the holders of the Notes may require the Company to repurchase for cash all or part of the Notes at a purchase price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest, if any.

Interest on the Notes is payable in cash semiannually. The effective interest rates for the Notes include the interest on the Notes, accretion of the discount, and amortization of issuance costs. The indentures that govern the Notes also contain various covenants, including limitations on the Company's ability to incur liens or enter into sale-leaseback transactions over certain dollar thresholds.

As of September 30, 2016, the Company was in compliance with all covenants in the indentures governing the Notes.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Revolving Credit Facility

On June 27, 2014, the Company entered into a Credit Agreement (“Credit Agreement”) with certain institutional lenders and Citibank, N.A., as administrative agent, that provides for a \$500.0 million unsecured revolving credit facility, with an option of the Company to increase the amount of the credit facility by up to an additional \$200.0 million, subject to certain conditions. Proceeds of loans made under the Credit Agreement may be used by the Company for working capital and general corporate purposes. Revolving loans may be borrowed, repaid and reborrowed until June 27, 2019, at which time all amounts borrowed must be repaid. Borrowing may be denominated, at the Company's option, in U.S. dollars, Pounds Sterling or Euro.

Borrowings under the Credit Agreement will bear interest at either i) a floating rate per annum equal to the base rate plus a margin of between 0.00% and 0.50%, depending on the Company's public debt rating or ii) a per annum rate equal to the reserve adjusted Eurocurrency rate, plus a margin of between 0.90% and 1.50%, depending on the Company's public debt rating. Base rate is defined as the greatest of (A) Citibank's base rate, (B) the Federal Funds rate plus 0.50% or (C) the ICE Benchmark Administration Settlement Rate applicable to dollars for a period of one month plus 1.00%. The Eurocurrency rate is determined for U.S. dollars and Pounds Sterling as the rate at which deposits in such currency are offered in the London interbank market for the applicable interest period and for Euro as the rate specified for deposits in Euro with a maturity comparable to the applicable interest period.

As of September 30, 2016, the Company was in compliance with all covenants in the Credit Agreement, and no amounts were outstanding.

Financing Arrangements

The Company provides certain channel partners access to extended financing arrangements that require longer payment terms than those typically provided by the Company by factoring accounts receivable to third-party financing providers (“financing providers”). The program does not and is not intended to affect the timing of the Company's revenue recognition. Under the financing arrangements, proceeds from the financing provider are due to the Company within 30 to 90 days from the sale of the receivable. In these transactions with the financing provider, the Company surrenders control over the transferred assets. During 2015, the Company transitioned certain distribution partners from the third party financing program to the Company's commercial payment terms.

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of \$59.3 million and \$73.4 million during the three and nine months ended September 30, 2016, respectively, and \$11.4 million and \$69.9 million during the three and nine months ended September 30, 2015, respectively. The Company received cash proceeds from financing providers of \$30.0 million and \$40.8 million during the three and nine months ended September 30, 2016, respectively, and \$9.1 million and \$94.6 million during the three and nine months ended September 30, 2015, respectively. As of September 30, 2016 and December 31, 2015, the amounts owed by the financing provider were \$33.8 million and \$1.2 million, respectively, which were recorded in accounts receivable on the Condensed Consolidated Balance Sheets.

Note 10. Equity

Cash Dividends on Shares of Common Stock

During the nine months ended September 30, 2016, the Company declared quarterly cash dividends of \$0.10 per share of common stock on January 27, 2016, April 28, 2016, and July 26, 2016, which were paid on March 22, 2016, June 22, 2016, and September 22, 2016, respectively, to stockholders of record on March 1, 2016, June 1, 2016, and September 1, 2016, respectively, in the aggregate amount of \$114.4 million. Any future dividends, and the establishment of record and payment dates, are subject to approval by the Board of Directors (the "Board") of Juniper Networks or authorized committee thereof. See Note 16, Subsequent Events, for discussion of the Company's dividend declaration subsequent to September 30, 2016.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Stock Repurchase Activities

In February 2014, the Board approved a stock repurchase program that authorized the Company to repurchase up to \$2.1 billion of its common stock, including \$1.2 billion pursuant to an accelerated share repurchase program (“2014 Stock Repurchase Program”). In October 2014 and July 2015, the Board authorized a \$1.3 billion and \$500.0 million increase, respectively, to the 2014 Stock Repurchase Program for a total of \$3.9 billion. As of September 30, 2016, there was \$219.7 million of authorized funds remaining under the 2014 Stock Repurchase Program. In addition to repurchases under the Company’s stock repurchase program, the Company also repurchases common stock from certain employees in connection with the net issuance of shares to satisfy minimum tax withholding obligations upon the vesting of certain stock awards issued to such employees.

The following table summarizes the Company's repurchases and retirements of its common stock under its stock repurchase program and repurchases associated with minimum tax withholdings (in millions, except per share amounts):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
<b>Repurchases Under Stock Repurchase Program</b>				
Shares repurchased	4.9	1.8	13.5	42.4
Average price per share	\$23.04	\$28.01	\$23.25	\$24.78
Amount repurchased	\$112.4	\$50.0	\$312.9	\$1,050.0
<b>Repurchases for Tax Withholding</b>				
Shares repurchased	0.1	0.1	0.5	0.3
Average price per share	\$23.37	\$26.75	\$24.47	\$25.50
Amount repurchased	\$1.4	\$2.9	\$11.0	\$7.6

Future share repurchases under the Company’s stock repurchase program will be subject to a review of the circumstances 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. The Company's stock repurchase program may be discontinued at any time.

## Accumulated Other Comprehensive Loss, Net of Tax

The components of accumulated other comprehensive loss, net of related taxes, during the nine months ended September 30, 2016 were as follows (in millions):

	Unrealized Gains (Losses) on Available-for- Sale Securities <sup>(1)</sup>	Unrealized Gains (Losses) on Cash Flow Hedges <sup>(2)</sup>	Foreign Currency Translation Adjustments	Total
Balance as of December 31, 2015	\$ 17.0	\$ (1.3 )	\$ (34.9 )	\$(19.2)
Other comprehensive gains (losses) before	5.4	3.6	(1.1 )	7.9

reclassifications				
Amount reclassified from accumulated other comprehensive loss	(1.1	)	(1.0	) — (2.1 )
Other comprehensive gains (losses), net	4.3		2.6	(1.1 ) 5.8
Balance as of September 30, 2016	\$ 21.3		\$ 1.3	\$ (36.0 ) \$(13.4)

The reclassifications out of accumulated other comprehensive loss during the nine months ended September 30, (1) 2016 for realized gains on available-for-sale securities of \$1.1 million are included in other expense, net, in the Condensed Consolidated Statements of Operations.

The reclassifications out of accumulated other comprehensive loss during the nine months ended September 30, 2016 for realized gains on cash flow hedges are included within research and development of \$0.3 million, sales (2) and marketing of \$0.3 million, cost of revenues of \$0.4 million, and an insignificant amount of realized loss in general and administrative to which the hedged transactions relate in the Condensed Consolidated Statements of Operations.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Employee Benefit Plans

Equity Incentive Plans

The Company's equity incentive plans include the 2015 Equity Incentive Plan (the "2015 Plan"), the 2006 Equity Incentive Plan (the "2006 Plan"), and the 2008 Employee Stock Purchase Plan (the "ESPP"). Under these plans, the Company has granted stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), and performance share awards ("PSAs"). In addition, in connection with certain past acquisitions, the Company has assumed stock options, RSUs, RSAs, and PSAs under the stock plans of the acquired companies and exchanged the assumed awards for the Company's stock options, RSUs, RSAs, and PSAs, respectively.

The 2015 Plan was adopted and approved by the Company's stockholders in May 2015 and had an initial authorized share reserve of 38.0 million shares of common stock plus the addition of any shares subject to outstanding awards under the 2006 Plan and the Amended and Restated 1996 Stock Plan that were outstanding as of May 19, 2015, and that subsequently expire or otherwise terminate, up to a maximum of an additional 29.0 million shares. As of September 30, 2016, an aggregate of 19.5 million shares were subject to outstanding equity awards under the 2015 Plan and the 2006 Plan. As of September 30, 2016, 23.6 million shares were available for future issuance under the 2015 Plan and no shares were available for future issuance under the 2006 Plan.

The ESPP was adopted and approved by the Company's stockholders in May 2008. To date, the Company's stockholders have approved a share reserve of 26.0 million shares of the Company's common stock for issuance under this plan, which includes an additional 7.0 million shares approved by the Company's stockholders in May 2015. The ESPP permits eligible employees to acquire shares of the Company's common stock at a 15% discount to the offering price (as determined in the ESPP) 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 September 30, 2016, approximately 21.1 million shares have been issued and 4.9 million shares remain available for future issuance under the ESPP.

On August 9, 2016, the Company completed the acquisition of Aurrion. In connection with the acquisition, the Company assumed stock options, RSUs, RSAs, and PSAs that had been granted under the Aurrion, Inc. Amended and Restated 2008 Equity Incentive Plan (the "Aurrion Plan") and converted the awards for Juniper Networks' stock options, RSUs, RSAs, and PSAs, respectively, based on an exchange ratio set forth in the acquisition agreement. The Company assumed an aggregate of 2.5 million shares of stock options, RSUs, RSAs, and PSAs in connection with the acquisition of Aurrion. No additional awards can be granted under the Aurrion Plan.

On April 1, 2016, the Company completed the acquisition of BTI. In connection with the acquisition, the Company assumed RSUs and PSAs that had been granted under the BTI Amended and Restated 2012 Stock Option Plan and Long-Term Incentive Plan (the "BTI Plan") and converted the awards for Juniper's RSUs and PSAs, respectively, based on an exchange ratio set forth in the acquisition agreement. The Company assumed an aggregate of 0.4 million shares of RSUs and PSAs in connection with the acquisition of BTI. No additional awards can be granted under the BTI Plan.

As of September 30, 2016, stock options, RSUs, RSAs, and PSAs representing approximately 3.6 million shares of common stock were outstanding under all awards assumed through the Company's acquisitions.





Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Stock Option Activities

The Company's stock option activity and related information as of and for the nine months ended September 30, 2016 were as follows (in millions, except for per share amounts and years):

	Outstanding Options			Aggregate
	Number	Weighted	Weighted Average	Intrinsic
	of	Average	Remaining	Value
	Shares	Exercise	Contractual Term	
		Price	(In Years)	
		per Share		
Balance as of December 31, 2015	3.6	\$ 27.52		
Assumed in acquisitions	0.1	8.42		
Exercised	(0.4)	13.72		
Expired	(0.2)	32.09		
Balance as of September 30, 2016	3.1	\$ 28.48	1.6	\$ 9.1
As of September 30, 2016:				
Vested and expected-to-vest options	3.1	\$ 28.49	1.6	\$ 9.1
Exercisable options	3.0	\$ 29.20	1.4	\$ 7.4

The aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$24.06 per share as of September 30, 2016, and the exercise price of the applicable options 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 exercise and the exercise price of each option, was \$0.3 million and \$4.6 million for the three and nine months ended September 30, 2016, respectively.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

The Company's RSU, RSA, and PSA activity and related information as of and for the nine months ended September 30, 2016 were as follows (in millions, except per share amounts and years):

	Outstanding RSUs, RSAs, and PSAs			
	Number	Weighted	Weighted	Aggregate
	of	Average	Average	Intrinsic
	Shares	Grant-Date	Remaining	Value
		Fair	Contractual	
		Value per	Term	
		Share	(In Years)	
Balance as of December 31, 2015	18.6	\$ 22.71		
RSUs granted <sup>(1)(3)</sup>	7.3	24.54		
RSUs assumed in acquisitions	0.3	23.88		
RSAs assumed in acquisitions	0.3	23.08		
PSAs granted <sup>(2)(3)</sup>	0.8	23.51		
PSAs assumed in acquisitions	2.2	22.63		
RSUs vested	(6.0)	22.38		
RSAs vested	(0.9)	20.66		
PSAs vested	(0.7)	21.61		
RSUs canceled	(1.2)	23.04		
PSAs canceled	(0.7)	22.59		
Balance as of September 30, 2016	20.0	\$ 23.63	1.2	\$ 481.9

<sup>(1)</sup> Includes service-based and market-based RSUs granted under the 2015 Plan according to its terms.

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

<sup>(2)</sup> issued if performance goals determined by the Compensation Committee are achieved at target is 0.5 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 0.8 million shares.

The grant date fair value of RSUs and PSAs were reduced by the present value of dividends expected to be paid on the underlying shares of common stock during the requisite and derived service period as these awards are not entitled to receive dividends until vested. During the nine months ended September 30, 2016, the Company

<sup>(3)</sup> declared quarterly cash dividends of \$0.10 per share of common stock on January 27, 2016, April 28, 2016, and July 26, 2016, which were paid on March 22, 2016, June 22, 2016, and September 22, 2016, respectively, to stockholders of record on March 1, 2016, June 1, 2016, and September 1, 2016, respectively, in the aggregate amount of \$114.4 million.

## Employee Stock Purchase Plan

The ESPP is implemented in a series of offering periods, each currently six months in duration, or such other period as determined by the Board. Employees purchased 1.4 million and 2.7 million shares of common stock through the ESPP at an average exercise price of \$19.29 and \$19.66 per share for the three and nine months September 30, 2016, respectively, and 1.3 million and 2.7 million shares at an average per share price of \$19.18 and \$19.25 for the three and nine months ended September 30, 2015, respectively.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Valuation Assumptions

There were no market-based RSUs granted during the three months ended September 30, 2016 and September 30, 2015. The weighted-average assumptions used and the resulting estimates of fair value for ESPP, market-based RSUs, and stock options assumed during the three and nine months ended September 30, 2016 and September 30, 2015 were as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
ESPP <sup>(1)</sup> :				
Volatility	29%	26%	32%	29%
Risk-free interest rate	0.4%	0.2%	0.4%	0.1%
Expected life (years)	0.5	0.5	0.5	0.5
Dividend yield	1.8%	1.4%	1.7%	1.7%
Weighted-average fair value per share	\$5.20	\$6.20	\$5.56	\$5.63
Market-based RSUs <sup>(2)</sup> :				
Volatility	—	—	36%	34%
Risk-free interest rate	—	—	1.2%	1.4%
Dividend yield	—	—	1.7%	1.8%
Weighted-average fair value per share	—	—	\$14.71	\$14.97
Stock Options Assumed <sup>(1)</sup> :				
Volatility	31%	—	31%	—
Risk-free interest rate	0.6%	—	0.6%	—
Expected life (years)	1.2	—	1.2	—
Dividend yield	1.7%	—	1.7%	—
Weighted-average fair value per share	\$14.21	—	\$14.21	—

<sup>(1)</sup> The fair value of ESPP and stock options assumed utilizes the Black-Scholes-Merton option-pricing model. The fair value of market-based RSUs utilizes the Monte Carlo valuation methodology. The Company amortizes the fair value of these awards over the derived service period adjusted for estimated forfeitures for each separately vesting tranche of the award. Provided that the derived service is rendered, the total fair value of the market-based

<sup>(2)</sup> RSUs at the date of grant is recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Share-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenues - Product	\$1.5	\$1.3	\$4.9	\$4.5
Cost of revenues - Service	3.5	3.2	11.3	10.4
Research and development	27.2	31.0	89.0	94.1
Sales and marketing	17.5	13.0	40.7	32.2
General and administrative	5.9	8.0	17.1	20.1
Total	\$55.6	\$56.5	\$163.0	\$161.3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	\$1.5	\$1.5	\$3.7	\$5.2
RSUs, RSAs, and PSAs	50.3	52.4	147.6	146.3
ESPP	3.8	2.6	11.7	9.8
Total	\$55.6	\$56.5	\$163.0	\$161.3

The unrecognized compensation cost, adjusted for estimated forfeitures, recognized over a weighted-average period related to unvested stock options, RSUs, RSAs, and PSAs as of September 30, 2016 were as follows (in millions, except years):

	Unrecognized Compensation Cost	Weighted Average Period (In Years)
Stock options	\$ 2.2	2.1
RSUs, RSAs, and PSAs	\$ 262.5	1.7

## Note 12. Segments

The Company conducts business globally and is managed, operated and organized by major functional departments that operate on a consolidated basis. Each major functional leader reports directly to the Company's chief executive officer, who is the chief operating decision maker ("CODM"). The Company's CODM views the business, allocates resources and assesses the performance of the Company primarily based on consolidated financial information for the entire business, accompanied by disaggregated information about net revenues by product and service and geographic

region as presented below. As a result, the Company operates in one reportable segment.

31

---

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Net revenues by product and service were as follows (in millions):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2016	2015	2016	2015
Routing	\$620.2	\$604.4	\$1,699.0	\$1,711.6
Switching	222.5	201.4	607.2	558.1
Security	85.5	119.6	237.1	319.5
Total product	928.2	925.4	2,543.3	2,589.2
Total service	357.1	323.2	1,061.2	949.0
Total	\$1,285.3	\$1,248.6	\$3,604.5	\$3,538.2

The Company attributes revenues to geographic region based on the customer's shipping address. Net revenues by geographic region were as follows (in millions):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2016	2015	2016	2015
Americas:				
United States	\$684.6	\$665.6	\$1,924.9	\$1,869.7
Other	60.4	47.2	168.3	167.9
Total Americas	745.0	712.8	2,093.2	2,037.6
Europe, Middle East, and Africa	338.0	355.0	923.5	975.1
Asia Pacific	202.3	180.8	587.8	525.5
Total	\$1,285.3	\$1,248.6	\$3,604.5	\$3,538.2

No customer accounted for 10% or more of the Company's net revenues during the three and nine months ended September 30, 2016 and September 30, 2015, respectively.

The geographic information for property and equipment, net and purchased intangible assets, net was as follows (in millions):

	As of	
	September 30,	December 31,
	2016	2015
United States	\$1,031.6	\$ 925.5
International	148.6	129.4
Property and equipment, net and purchased intangible assets, net	\$1,180.2	\$ 1,054.9

The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of September 30, 2016 and December 31, 2015, were attributable to U.S. operations.

## Note 13. Income Taxes

The Company's effective tax rate for the three and nine months ended September 30, 2016 of 27.1% and 27.2%, respectively, differs from the federal statutory rate of 35% primarily due to the benefit of the Section 199 deduction for U.S. production activities, the federal research and development ("R&D") credit, and earnings in foreign

jurisdictions, which are subject to lower tax rates, and the impact of the discrete items referenced in the table below.

The Company's effective tax rate for the three and nine months ended September 30, 2015 of 20.8% and 26.3%, respectively, differs from the federal statutory rate of 35% primarily due to the benefit of the Section 199 deduction for U.S. production activities and earnings in foreign jurisdictions, which are subject to lower tax rates, and the impact of the discrete items referenced in the table below.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The effective tax rates for the three and nine months ended September 30, 2016 and September 30, 2015 include the tax expense (benefit) of the following discrete items (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Cost-sharing adjustment <sup>(1)</sup>	\$—	\$(13.2)	\$—	\$(13.2)
Gain and losses on investments in privately-held companies	0.7	—	(0.5)	—
Restructuring charges	(0.3)	—	(0.3)	—
Acquisition-related charges	\$(0.7)	\$—	\$(3.8)	\$—

<sup>(1)</sup> Represents cumulative impact through fiscal year 2014 for the change in treatment of share-based compensation as a result of the U.S. Tax Court decision in *Altera Corp. v. Commissioner*, 145 T.C. No. 3 (2015).

As of September 30, 2016, the total amount of gross unrecognized tax benefits was \$220.4 million, of which \$190.7 million, if recognized, would affect the Company's effective tax rate. As a result of the closure of the California Franchise Tax Board ("FTB") audit discussed below, the gross unrecognized tax benefits was reduced by approximately \$14.3 million, which did not affect the Company's 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 \$5.4 million within the next twelve months due to lapses of applicable statutes of limitations and the completion of tax review cycles in various tax jurisdictions.

The Company is currently under examination by the Internal Revenue Service ("IRS") for the 2007 through 2009 tax years. In March 2016, the IRS concluded its field audit and issued a final assessment. The Company is appealing this assessment. As of September 30, 2016, the Company believes the resolution of the audits is unlikely to have a material effect on its consolidated financial condition or results of operations.

In June 2016, the California FTB concluded its audit of the 2004 through 2006 tax years. The audit was resolved without impact to the Company's financial statements. The Company is no longer subject to an audit of its California income taxes through the 2006 tax year.

The Company is also subject to separate ongoing examinations by the UK tax authorities for the 2013 tax year and the India tax authorities for the 2003 tax year, 2004 through 2008 tax years, and the 2009 through 2012 tax years. As of September 30, 2016, the Company is not aware of any other examinations by tax authorities in any other major jurisdictions in which it files income tax returns.

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 remedies 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, 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.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 14. Net Income per Share

The Company computed basic and diluted net income per share attributable to Juniper Networks common stockholders as follows (in millions, except per share amounts):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Numerator:				
Net income	\$172.4	\$197.7	\$403.8	\$435.9
Denominator:				
Weighted-average shares used to compute basic net income per share	381.0	382.8	382.3	393.2
Dilutive effect of employee stock awards	3.5	6.4	5.6	8.0
Weighted-average shares used to compute diluted net income per share	384.5	389.2	387.9	401.2
Net income per share				
Basic	\$0.45	\$0.52	\$1.06	\$1.11
Diluted	\$0.45	\$0.51	\$1.04	\$1.09
Anti-dilutive shares	2.7	3.1	2.7	3.7

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 dilutive common shares outstanding during the period. Dilutive potential common shares consist of common shares issuable upon exercise of stock options, issuances of ESPP, and vesting of RSUs, RSAs, and PSAs. The Company includes the common shares underlying PSAs in the calculation of diluted net income per share only when they become contingently issuable. Anti-dilutive shares are excluded from the computation of diluted net income per share.

## Note 15. 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 August 31, 2026. 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 \$121.9 million as of September 30, 2016. Rent expense was \$9.6 million and \$29.2 million for the three and nine months ended September 30, 2016, respectively, and \$10.8 million and \$33.2 million for the three and nine months ended September 30, 2015, respectively.

## Data Center Lease Agreement

On July 10, 2015, the Company entered into a data center lease agreement through March 2026 in which the Company has the option to extend the term of the lease for up to twenty years in increments of either five years or ten years, for approximately 63,000 square feet of space in the State of Washington. As of September 30, 2016, the total payment for the financing obligation under the lease agreement is expected to be approximately \$116.4 million over the ten-year term. The lease agreement provides the Company with a tenant allowance of \$6.0 million to be used for tenant leasehold improvements. Any unused tenant allowance may be applied as a credit to the rent payment. During the three months ended September 30, 2016, the Company received reimbursement for tenant allowances of \$4.4 million. The space is used, among other things, to consolidate certain of the Company's laboratory operations currently located in Sunnyvale, California.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

As the Company is subject to certain contractual obligations during the construction period, the Company was deemed the owner of the property during the construction period. As of December 31, 2015, the Company capitalized the construction costs by recording a build-to-suit lease asset under construction in progress of \$45.6 million, which is a component of property and equipment, net, and a corresponding build-to-suit financing liability, which is a component of other long-term liabilities, in the Condensed Consolidated Balance Sheets. Through the date of construction completion, the Company recorded additional construction costs of \$15.2 million.

Upon the completion of construction in April 2016, the Company assessed whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. The Company concluded that it had a certain form of continuing economic involvement in the facility, which precluded sale-leaseback accounting treatment. As a result, a total of \$60.9 million of costs capitalized were placed in service and are depreciated over the lease term.

**Purchase Commitments with Contract Manufacturers and Suppliers**

In order to reduce manufacturing lead times and in the interest of having access to 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 \$592.7 million as of September 30, 2016.

The Company establishes a liability in connection with purchase commitments related to quantities in excess of its demand forecasts or obsolete materials charges for components purchased by the contract manufacturers based on the Company's demand forecast or customer orders. As of September 30, 2016, the Company had accrued \$15.9 million based on its estimate of such charges.

**Debt and Interest Payment on Debt**

As of September 30, 2016, the Company held long-term debt consisting of the Notes with a carrying value of \$2,133.1 million. Of these Notes, \$350.0 million will mature in 2019 and bears interest at a fixed rate of 3.125%, \$300.0 million will mature in 2020 and bears interest at a fixed rate of 3.30%, \$300.0 million will mature in 2021 and bears interest at a fixed rate of 4.60%, \$500.0 million will mature in 2024 and bears interest at a fixed rate of 4.50%, \$300.0 million will mature in 2025 and bears interest at a fixed rate of 4.35%, 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 9, Debt and Financing, for further discussion of the Company's long-term debt.

**Tax Liabilities**

As of September 30, 2016, the Company had \$205.1 million included in long-term income 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 solely, or in combination with other third party products, infringe the intellectual property rights of a third-party. As of September 30, 2016, the Company recorded \$30.5 million for such indemnification obligations in other accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets. The Company also has financial guarantees consisting of guarantees of product and service performance, standby letters of credit for certain lease facilities and insurance programs, and guarantees related to third-party customer-financing arrangements of \$6.5 million and \$15.8 million, as of September 30, 2016 and December 31, 2015, respectively.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Legal Proceedings

Investigations

The U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ") are conducting investigations into possible violations by the Company of the U.S. Foreign Corrupt Practices Act ("FCPA"). The Company is cooperating with these agencies regarding these matters. The Company's Audit Committee, with the assistance of independent advisors, has been investigating and conducting a thorough review of possible violations of the FCPA, and has made recommendations for remedial measures, including employee disciplinary actions in foreign jurisdictions, which the Company has implemented and continues to implement. The Company is unable to predict the duration, scope or outcome of the SEC and DOJ investigations, but believes that an adverse outcome is reasonably possible. However, the Company is not able to estimate a reasonable range of possible loss. The SEC and/or DOJ could take action against the Company or the Company could agree to settle. In such event, the Company could be required to pay substantial fines and sanctions and/or implement additional remedial measures; in addition, it may be determined that the Company violated the FCPA.

Other Litigation

In addition to the investigations discussed above, the Company is involved in other disputes, litigations, and legal proceedings. The Company intends to aggressively defend itself in these matters, and while there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that none of these existing claims or proceedings are likely to have a material adverse effect on its financial position. Notwithstanding the foregoing, there are many uncertainties associated with any litigation and these matters 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.

The Company records an accrual for loss contingencies for legal proceedings when it believes that an unfavorable outcome is both (a) probable and (b) the amount or range of any possible loss is reasonably estimable. The Company has not recorded any accrual for loss contingencies associated with such legal proceedings or the investigations discussed above.

Note 16. Subsequent Events

On October 25, 2016, the Company announced that it had declared a cash dividend of \$0.10 per share of common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016.

## Table of Contents

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

This Quarterly Report on Form 10-Q, which we refer to as the 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., which we refer to as “we,” “us,” or the “Company,” that are based on our current expectations, estimates, forecasts, and projections about our business, economic and market outlook, 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,” “could,” “intends,” “plans,” “believes,” “seeks,” “estimates,” 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, or the SEC. 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, except as required by applicable law.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included in Part I, Item I, of this Report, which have been prepared in accordance with U.S. generally accepted accounting principles, or 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. 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. Each of these decisions has some impact on the financial results for any given period.

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 condensed consolidated financial condition and results of operations in this Item 2, our “Risk Factors” section included in Item 1A of Part II of this Report, 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, 2015.

#### Business and Market Environment

At Juniper Networks, we design, develop, and sell products and services for high-performance networks to enable customers to build highly scalable, reliable, secure and cost-effective networks for their businesses, while achieving agility, efficiency and value through automation. We focus on customers and partners across our key market verticals who view these network attributes as fundamental to their business; including Telecom, Cable Providers, Cloud Providers, National Government, Financial Services, and Strategic Enterprise Verticals. We believe that product and solution differentiation, with a relentless customer focus, will enable us to grow revenue and increase market share.

Our products are sold globally in three geographic regions: Americas; Europe, Middle East, and Africa, or EMEA; and Asia Pacific, or APAC. Our high-performance routing, switching, and security networking products and service offerings are sold to Service Provider and Enterprise markets. We believe that our silicon, systems, and software represent innovations that transform the economics and experience of networking, helping our customers achieve



superior performance, greater choice, and flexibility, while reducing overall total cost of ownership. In addition to our products, we offer technical support and professional services, as well as education and training programs to our customers.

We are focused on operational excellence, cost discipline and targeted growth initiatives, as well as partnerships and strategic acquisitions that we believe will complement our R&D strategy. In August 2016, we acquired Aurrion, Inc., or Aurrion, a provider of fabless silicon photonic technology, which we expect will strengthen our long-term competitive advantage in cost-effective, high-density, high-speed networks. In addition, in April 2016, we acquired optical equipment provider BTI Systems Inc., or BTI, which we expect will allow us to accelerate the delivery of open and automated packet optical transport solutions with integrated network management. These acquisitions complement our existing solutions in the data center and metro.

Further, we intend to continue to develop software solutions and we plan to focus our long-term strategy on increasing our software revenue as a percentage of total revenue over time.

Table of Contents

## 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, or DSO, and book-to-bill):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	Change	% Change	2016	2015	Change	% Change
Net revenues	\$1,285.3	\$1,248.6	\$36.7	3 %	\$3,604.5	\$3,538.2	\$66.3	2 %
Gross margin	\$799.5	\$797.4	\$2.1	— %	\$2,246.8	\$2,236.2	\$10.6	— %
Percentage of net revenues	62.2 %	63.9 %			62.3 %	63.2 %		
Operating income	\$250.0	\$258.0	\$(8.0)	(3) %	\$602.5	\$632.9	\$(30.4)	(5) %
Percentage of net revenues	19.5 %	20.7 %			16.7 %	17.9 %		
Net income	\$172.4	\$197.7	\$(25.3)	(13) %	\$403.8	\$435.9	\$(32.1)	(7) %
Percentage of net revenues	13.4 %	15.8 %			11.2 %	12.3 %		
Net income per share:								
Basic	\$0.45	\$0.52	\$(0.07)	(13) %	\$1.06	\$1.11	\$(0.05)	(5) %
Diluted	\$0.45	\$0.51	\$(0.06)	(12) %	\$1.04	\$1.09	\$(0.05)	(5) %
Cash dividends declared per common stock	\$0.10	\$0.10	\$—	— %	\$0.30	\$0.30	\$—	— %
Stock repurchase plan activity	\$112.4	\$50.0	\$62.4	125 %	\$312.9	\$1,050.0	\$(737.1)	(70) %
Operating cash flows					\$772.2	\$775.5	\$(3.3)	— %
DSO	53	42	11	26 %				
Product book-to-bill	>1	>1						
					September 30, 2016	December 31, 2015	\$ Change	% Change
Deferred revenue					\$1,304.1	\$1,168.1	\$136.0	12 %

**Net Revenues:** Net revenues during the third quarter of 2016 increased compared to the same period in 2015, driven by strong year-over-year revenue growth from switching as we saw continued data center strength, particularly from our QFX product family. Our focus on addressing the cloud opportunity (large public and private data centers) resulted in the development of a product portfolio over the past three years that we believe will enable us to continue to grow our switching business in the foreseeable future. Routing revenues also increased during the third quarter of 2016, compared to the same period in 2015, due to an increase in revenues from our Cloud Providers. Our security revenues declined during the third quarter of 2016, since this component of our business is transitioning from legacy security products to our new security offerings, which were recently introduced. We expect that this transition in security should continue over the next few quarters.

Of our top ten customers for the third quarter of 2016, four were Cloud or Cable Providers, four were Telecoms, and two were Enterprises. Of these customers, two were located outside of the U.S.

We remain constructive on 2016 revenue growth based on our continued focus on our key market verticals, including Cloud Providers and Enterprise customers, our new product offerings, and our anticipated customer deployments.

Gross Margin: Our gross margin as a percentage of net revenues declined during the third quarter of 2016, compared to the same periods in 2015, primarily due to elevated pricing pressure and product mix, partially offset by improvements to our cost structure. We expect gross margins as a percentage of net revenues to remain approximately at their current levels for the next few quarters.

38

---

## Table of Contents

We expect that our product gross margin as a percentage of net revenues will continue to vary, both near-term and in the long-term, primarily due to the mix of products sold and competitive pricing pressures. However, we believe product gross margins as a percentage of net revenues should experience a benefit in the long-term from the continued acceptance of our new products and technologies, the expected increase in software revenues as a percentage of total revenues, and as we continue to manage our cost structure.

**Operating Margin:** Our operating income as a percentage of net revenues decreased during the third quarter of 2016, compared to the same period in 2015, due to increased operating expenses primarily resulting from higher personnel-related expenses and expenses associated with the acquisitions of BTI and Aurrion as well as the decline in gross margin as a percentage of revenue.

**Capital Return:** We continued to deliver on our previously announced capital return program. In the third quarter of 2016, we repurchased 4.9 million of shares of our common stock and paid a quarterly cash dividend of \$0.10 per share for an aggregate amount of \$150.4 million. Since the first quarter of 2014, inclusive of share repurchases and dividends, we have returned approximately \$4.06 billion of capital against our previously announced intention to return a total of \$4.1 billion by the end of 2016. Beginning in 2017, we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. Free cash flow is calculated as net cash provided by operating activities less capital expenditures.

On October 25, 2016, we announced a cash dividend of \$0.10 per share of common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016.

**Operating Cash Flows:** Operating cash flows decreased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to an increase in cash payments to suppliers and employees and an increase in income taxes paid in 2016, partially offset by an increase in cash received from customers.

**DSO:** DSO is calculated as the ratio of ending accounts receivable, net of allowances, divided by average daily net revenues for the preceding 90 days. DSO for the third quarter of 2016 increased by 11 days, or 26%, compared to the same period in 2015. The increase in DSO was primarily due to decreased shipment and invoicing linearity. Our target DSO range is 45 to 55 days.

## 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 that we believe reflect our more significant estimates, judgments, and assumptions and are most critical to understanding and evaluating our reported financial results are as follows:

- Goodwill;
- Inventory Valuation and Contract Manufacturer Liabilities;
- Revenue Recognition;

Income Taxes; and  
Loss Contingencies.

During the nine months ended September 30, 2016, 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, 2015.

Table of Contents

## 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

We sell our high-performance networking products and service offerings across routing, switching, and security to two primary markets: Service Provider and Enterprise. Our determination of the market to which a particular revenue transaction relates 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 and wireless carriers, and cable operators, as well as major Internet content and application providers. The Enterprise market is generally comprised of businesses; federal, state, and local governments; research and education institutions; and financial services.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$	%	2016	2015	\$	%
			Change	Change			Change	Change
Routing	\$620.2	\$604.4	\$ 15.8	3 %	\$1,699.0	\$1,711.6	\$(12.6)	(1 )%
Switching	222.5	201.4	21.1	10 %	607.2	558.1	49.1	9 %
Security	85.5	119.6	(34.1 )	(29 )%	237.1	319.5	(82.4 )	(26 )%
Total Product	928.2	925.4	2.8	— %	2,543.3	2,589.2	(45.9 )	(2 )%
Percentage of net revenues	72.2	% 74.1	%		70.6	% 73.2	%	
Total Service	357.1	323.2	33.9	10 %	1,061.2	949.0	112.2	12 %
Percentage of net revenues	27.8	% 25.9	%		29.4	% 26.8	%	
Total net revenues	\$1,285.3	\$1,248.6	\$ 36.7	3 %	\$3,604.5	\$3,538.2	\$ 66.3	2 %

Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

## Routing

Routing product net revenues increased during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to an increase in net revenues from our PTX products, driven by higher demand from Cloud Providers for our next-generation IP products. This increase was partially offset by lower revenues from our MX products due to the timing of deployments and lower revenues from our National Government vertical.

## Switching

Switching product net revenues increased during the three months ended September 30, 2016, compared to the same period in 2015, due to continued data center strength particularly from our QFX product family, which grew 50% year-over-year, partially offset by declines from our EX product family. The year-over-year revenue growth was primarily driven by Cloud Providers, however, we also see opportunities for additional revenues from large Telecoms, Cable Providers, and large Enterprises who are demanding high-capacity, high-speed networking. We expect that our data center switching portfolio will drive revenue growth in our switching business in the foreseeable future.

Security

Security product net revenues decreased during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to lower revenues from our Branch and High-End SRX products as well as a continued decline in revenues from our legacy security products. In addition, the year-over-year revenue decline was due to lower revenue from Enterprise, Telecom, and Cloud Providers, partially offset by an increase in revenue from our National Government vertical. This component of our business is transitioning from our legacy security products to our new security offerings, which were recently introduced and are still in the process of ramping. We expect this transition to continue over the next few quarters.

Table of Contents

## Service

The increase in service net revenues during the three months ended September 30, 2016, compared to the same period in 2015, was primarily driven by a strong increase in maintenance services, as well as renewal and attach rates of support contracts.

Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

## Routing

Routing product net revenues decreased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to a decline in revenues from our MX products, resulting from lower demand from Telecom which is impacted by the timing of large deployments. Net revenues from our T Series products also declined, which was partially offset by an increase in revenues from our PTX Series products due to higher sales to Cloud Providers as well as the ramp up of our new products.

## Switching

Switching product net revenues increased during the nine months ended September 30, 2016, compared to the same period in 2015, due to continued growth from our QFX product family, partially offset by lower demand for our EX products. Our strategic focus on cloud and data center environments has resulted in a growing data center switching portfolio over the past three years. In addition, switching revenue growth was driven by our National Government vertical and Cloud Providers. We expect that our data center switching portfolio will drive revenue growth in our switching business in the foreseeable future.

## Security

Security product net revenues decreased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to a decrease in revenues from both Enterprise and Service Provider markets. Further, we saw a continued decline in net revenues from our SRX and Legacy products. This portion of our business is transitioning from our legacy security products to our new security offerings. We expect this transition to continue over the next few quarters.

## Service

The increase in service net revenues during the nine months ended September 30, 2016, compared to the same period in 2015, was primarily driven by attach rates of support contracts.

## Net Revenues by Geographic Region

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

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change	
Americas:									
United States	\$684.6	\$665.6	\$ 19.0	3 %	\$1,924.9	\$1,869.7	\$ 55.2	3 %	
Other	60.4	47.2	13.2	28 %	168.3	167.9	0.4	— %	
Total Americas	745.0	712.8	32.2	5 %	2,093.2	2,037.6	55.6	3 %	
Percentage of net revenues	58.0	% 57.1	%		58.1	% 57.6	%		



Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

EMEA	338.0	355.0	(17.0 )	(5 )%	923.5	975.1	(51.6 )	(5 )%
Percentage of net revenues	26.3 %	28.4 %			25.6 %	27.6 %		
APAC	202.3	180.8	21.5	12 %	587.8	525.5	62.3	12 %
Percentage of net revenues	15.7 %	14.5 %			16.3 %	14.8 %		
Total net revenues	\$1,285.3	\$1,248.6	\$ 36.7	3 %	\$3,604.5	\$3,538.2	\$ 66.3	2 %

41

---

Table of Contents

Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

Americas

Net revenues in the Americas increased during the three months ended September 30, 2016, compared to the same period in 2015, primarily driven by Cloud and Cable Providers as they build out data center environments, partially offset by lower revenues from Telecom, which is impacted by the timing of large deployments.

EMEA

Net revenues in EMEA decreased during the three months ended September 30, 2016, compared to the same period in 2015. The year-over-year decline was primarily driven by the timing of deployments of large Telecoms as well as Enterprise, partially offset by an increase in revenues from Cloud Providers. To a lesser extent, the decline in net revenues was also attributable to certain macroeconomic uncertainties in the region.

APAC

Net revenues in APAC increased during the three months ended September 30, 2016, compared to the same period in 2015, as growth was primarily driven by higher routing purchases from Cloud Providers and an increase in Telecom, partially offset by a decline in National Government. Southeast Asia and Telecom in China drove the year-over-year increases, which were slightly offset by a decrease in Japan.

Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

Americas

Net revenues in the Americas increased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to an increase in net revenues from our switching products in our Service Provider market. The increase in revenues was also driven by higher revenues from Cloud Providers as they build out data center environments, which was partially offset by a decrease in revenues from Telecom, which is impacted by the timing of large deployments.

EMEA

Net revenues in EMEA decreased during the nine months ended September 30, 2016, compared to the same period in 2015. The year-over-year decline was primarily driven by a decrease in revenue from routing and security products and the timing of deployments of large Telecoms, partially offset by an increase in revenues from our National Government vertical and Cloud Providers. To a lesser extent, certain macroeconomic uncertainties in the region also contributed to the decline in net revenues.

APAC

Net revenues in APAC increased during the nine months ended September 30, 2016, compared to the same period in 2015 across all customer verticals. Geographically, revenue growth was primarily driven by an increase in revenues from China driven by higher demand for our MX products, which was partially offset by a decline in revenues from Japan during the nine months ended September 30, 2016, compared to the same period in 2015.

Net Revenues by Market and Customer

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Service Provider	\$854.1	\$804.3	\$ 49.8	6 %	\$2,474.0	\$2,356.6	\$117.4	5 %
Percentage of net revenues	66.5 %	64.4 %			68.6 %	66.6 %		
Enterprise	431.2	444.3	(13.1 )	(3 )%	1,130.5	1,181.6	(51.1 )	(4 )%
Percentage of net revenues	33.5 %	35.6 %			31.4 %	33.4 %		
Total net revenues	\$1,285.3	\$1,248.6	\$ 36.7	3 %	\$3,604.5	\$3,538.2	\$66.3	2 %

Table of Contents

Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

## Service Provider

Net revenues from the Service Provider market increased during the three months ended September 30, 2016, compared to the same period in 2015, which was as a result of an increase in revenues across all geographies, with the most significant increase in APAC, which was due to higher demand for our routing products.

## Enterprise

Net revenues from the Enterprise market decreased during the three months ended September 30, 2016, compared to the same period in 2015, due to declines across all technologies, primarily security.

Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

## Service Provider

Net revenues from the Service Provider market increased during the nine months ended September 30, 2016, compared to the same period in 2015. We saw an increase in net revenues in APAC and the Americas, which was partially offset by a slight decline in EMEA. In addition, an increase in revenues from our switching and routing products as well as service revenue was partially offset by a decline in revenues from our security products.

## Enterprise

Net revenues from the Enterprise market decreased during the nine months ended September 30, 2016, compared to the same period in 2015. The decrease in net revenues was primarily attributable to declines in revenue from EMEA and APAC. Additionally, we saw decreases in revenues from our routing and security products, which were partially offset by increases in switching.

## Customer

No customer accounted for 10% or more of our net revenues during the three and nine months ended September 30, 2016 and September 30, 2015.

## Gross Margins

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Product gross margin	\$578.6	\$602.8	\$(24.2)	(4)%	\$1,587.5	\$1,666.1	\$(78.6)	(5)%
Percentage of product revenues	62.3%	65.1%			62.4%	64.3%		
Service gross margin	220.9	194.6	26.3	14%	659.3	570.1	89.2	16%
Percentage of service revenues	61.9%	60.2%			62.1%	60.1%		
Total gross margin	\$799.5	\$797.4	\$2.1	—%	\$2,246.8	\$2,236.2	\$10.6	—%
Percentage of net revenues	62.2%	63.9%			62.3%	63.2%		

Our gross margins have been and will continue to be affected by a variety of factors, including the mix and average selling prices of our products and services, new product introductions and enhancements, manufacturing costs, expenses for inventory obsolescence and warranty obligations, cost of support and service personnel, and the mix of distribution channels through which our products are sold.

Table of Contents

Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

## Product gross margin

Product gross margin as a percentage of product revenues decreased during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to elevated pricing pressure and product mix, partially offset by improvements in our cost structure. We expect that our product gross margin will continue to vary in the future due to the mix of products sold and competitive pricing pressures. We expect that our product gross margin as a percentage of net revenues will continue to vary in the future primarily due to the mix of products sold and competitive pricing pressures. We believe product gross margins as a percentage of net revenues will improve in the long-term from the continued acceptance of new products and technologies, the expected increase in software revenues as a percentage of total revenues as we transition to software-based business models, and as we continue to manage costs within our supply chain.

## Service gross margin

Service gross margin as a percentage of service net revenues increased during the three months ended September 30, 2016, compared to the same period in 2015 due to strong renewal and attach rate of support contracts for our MX products and strong attach rate of support contracts for our QFX products

Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

## Product gross margin

Product gross margin as a percentage of product revenues decreased during the nine months ended months ended September 30, 2016, compared to the same period in 2015, primarily due to product mix and elevated pricing pressure, partially offset by improvements in our cost structure.

## Service gross margin

Service gross margin as a percentage of service net revenues increased during the nine months ended September 30, 2016, compared to the same period in 2015, due to strong renewal and attach rate of support contracts for our MX products and strong attach rate of support contracts for our QFX products.

## Operating Expenses

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Research and development	\$251.8	\$247.0	\$ 4.8	2 %	\$750.7	\$747.3	\$ 3.4	— %
Percentage of net revenues	19.6 %	19.8 %			20.8 %	21.1 %		
Sales and marketing	242.9	235.3	7.6	3 %	718.4	687.9	30.5	4 %
Percentage of net revenues	18.9 %	18.8 %			19.9 %	19.4 %		
General and administrative	54.0	57.1	(3.1 )	(5 )%	172.0	168.6	3.4	2 %
Percentage of net revenues	4.2 %	4.6 %			4.8 %	4.8 %		
Restructuring charges (benefits)	0.8	—	0.8	N/M	3.2	(0.5 )	3.7	N/M
Percentage of net revenues	0.1 %	— %			0.1 %	— %		

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Total operating expenses	\$549.5	\$539.4	\$ 10.1	2	%	\$1,644.3	\$1,603.3	\$ 41.0	3	%
Percentage of net revenues	42.8	%	43.2	%		45.6	%	45.3	%	

---

N/M - Percentage change is not meaningful.

Our operating expenses have historically been driven in large part by personnel-related costs, including wages, commissions, bonuses, benefits, share-based compensation, and travel. Facilities and information technology, or IT, costs are allocated to each department based on usage and headcount.

Table of Contents

## Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

During the three months ended September 30, 2016, compared to the same period in 2015, total operating expenses increased primarily due to an increase in personnel-related expenses across research and development, sales and marketing, and general and administrative due to higher headcount, although general and administrative expense declined in total as a result of a decrease in share-based compensation expense. Total operating expenses during the three months ended September 30, 2016 also included expenses associated with the acquisitions of BTI and Aurrion. These increases were partially offset by lower engineering and development costs as we delivered our new products to the market.

## Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

During the nine months ended September 30, 2016, compared to the same period in 2015, total operating expenses increased primarily due to an increase in personnel-related expenses in research and development driven by an increase in headcount and an increase in share-based compensation expense related to sales and marketing expense. Additionally, marketing-related expenses increased to position us to capture the growth opportunities from our new products. Total operating expenses during the nine months ended September 30, 2016 also included expenses associated with the acquisitions of BTI and Aurrion. These increases were partially offset by lower engineering and development costs as we delivered our new products to the market.

## Share-Based Compensation

Share-based compensation expense associated with equity incentive awards, which we refer to as awards, which include stock options, restricted stock units, or RSUs, restricted stock awards, or RSAs and performance share awards, or PSAs, as well as our Employee Stock Purchase Plan, or ESPP, was recorded in the following cost and expense categories (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Cost of revenues - Product	\$ 1.5	\$ 1.3	\$ 0.2	15 %	\$ 4.9	\$ 4.5	\$ 0.4	9 %
Cost of revenues - Service	3.5	3.2	0.3	9 %	11.3	10.4	0.9	9 %
Research and development	27.2	31.0	(3.8 )	(12 )%	89.0	94.1	(5.1 )	(5 )%
Sales and marketing	17.5	13.0	4.5	35 %	40.7	32.2	8.5	26 %
General and administrative	5.9	8.0	(2.1 )	(26 )%	17.1	20.1	(3.0 )	(15 )%
Total	\$ 55.6	\$ 56.5	\$ (0.9 )	(2 )%	\$ 163.0	\$ 161.3	\$ 1.7	1 %

Share-based compensation expense decreased slightly during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to a decline in actual shares vested during the period, partially offset by expense related to stock options, RSUs, RSAs, and PSAs assumed in connection with our acquisition of Aurrion during the third quarter of 2016.

Share-based compensation expense increased during the nine months ended September 30, 2016 as compared to the same period in 2015 primarily due to expense related to stock options, RSUs, RSAs, and PSAs assumed in connection with our acquisition of Aurrion during the third quarter of 2016.



Table of Contents

## Other Expense, Net and Income Tax Provision

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$	%	2016	2015	\$	%
			Change	Change			Change	Change
Interest income	\$9.1	\$5.7	\$ 3.4	60 %	\$25.5	\$16.3	\$ 9.2	56 %
Interest expense	(25.1 )	(21.6 )	(3.5 )	16 %	(72.6 )	(61.9 )	(10.7 )	17 %
Gain on investments, net	1.9	6.0	(4.1 )	(68 )%	0.1	6.8	(6.7 )	(99 )%
Other	0.7	1.5	(0.8 )	(53 )%	(0.2 )	(2.5 )	2.3	(92 )%
Total other expense, net	\$(13.4)	\$(8.4)	\$(5.0 )	60 %	\$(47.2)	\$(41.3)	\$(5.9 )	14 %
Percentage of net revenues	(1.0 )%	(0.7 )%			(1.3 )%	(1.2 )%		
Income tax provision	\$64.2	\$51.9	\$ 12.3	24 %	\$151.5	\$155.7	\$(4.2 )	(3 )%
Effective tax rate	27.1 %	20.8 %			27.2 %	26.3 %		

## Other Expense, Net

Interest income primarily includes interest earned from our cash, cash equivalents, investments, and promissory note issued to Juniper in connection with the sale of Junos Pulse. Interest expense primarily includes interest, net of capitalized interest expense, from our short-term and long-term debt and customer financing arrangements. Gain on investments, net, primarily includes gains and losses from the sale of investments in privately-held companies and includes any impairment charges recorded on these investments. Other typically consists of foreign exchange gains and losses and other non-operational income and expense items.

## Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

Total other expense, net increased during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to lower net gains on investments and an increase in interest expense, partially offset by higher interest income. Lower net gains on investments were as a result of an impairment charge recorded in the third quarter of 2016, partially offset by gains from the sale of investments in privately-held companies. The higher interest expense was due to our higher debt balance in 2016 compared to 2015. The increase in interest income was due to higher yields on our investments.

## Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

Total other expense, net increased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to lower net gains on investments and an increase in interest expense, partially offset by higher interest income. The lower net gains on investments was due to impairment charges of \$9.6 million recorded on our investments in privately-held companies during the nine months ended September 30, 2016, partially offset by gains on the sale of certain publicly-traded equity securities and investments in privately-held companies. The higher interest expense was due to our higher debt balance in 2016 compared to 2015. The increase in interest income was due to higher yields on our investments.

## Income Tax Provision

## Three Months Ended September 30, 2016 compared with the Three Months Ended September 30, 2015

The effective tax rate increased during the three months ended September 30, 2016, compared to the same period in 2015, primarily due to a change in geographic mix of earnings, partially offset by the benefit of the federal R&D credit, which was permanently reinstated on December 18, 2015, and other nonrecurring items. The effective tax rate for the three months ended September 30, 2015 includes a discrete benefit of \$13.2 million related to a change in the tax treatment of share-based compensation in our cost sharing arrangement.

Table of Contents

Nine Months Ended September 30, 2016 compared with the Nine Months Ended September 30, 2015

The effective tax rate increased during the nine months ended September 30, 2016, compared to the same period in 2015, primarily due to a change in geographic mix of earnings, partially offset by the benefit of the federal R&D credit, which was permanently reinstated on December 18, 2015, and other nonrecurring items. The effective tax rate for nine months ended September 30, 2015 includes a discrete benefit of \$13.2 million related to a change in the tax treatment of share-based compensation in our cost sharing arrangement.

As a result of recommendations by the Organisation for Economic Cooperation and Development (OECD) on Base Erosion and Profit Shifting (BEPS), certain countries in EMEA and APAC have either enacted new corporate tax legislation or are considering enacting such legislation in the near future. We expect the effect of these reform measures to potentially impact long-standing tax principles, particularly as regards to transfer pricing. Consequently, we expect global tax authorities to increasingly challenge the Company's cost sharing and other intercompany arrangements, and the related sourcing of taxable profits in global jurisdictions. In 2016, the Company entered into discussions with the UK tax authorities and the Australian tax authorities regarding corporate tax reform legislation enacted by those countries.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates. Our effective tax rate could also fluctuate due to changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, or accounting principles, as well as certain discrete items. See Item 1A of Part II, "Risk Factors" of this Report for a description of relevant risks which may adversely affect our results.

For further explanation of our income tax provision, see Note 13, Income Taxes, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report.

### Liquidity and Capital Resources

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

	As of			
	September 30, 2016	December 31, 2015	Change	% Change
Working capital	\$1,921.0	\$ 1,110.5	\$810.5	73 %
Cash and cash equivalents	\$1,689.0	\$ 1,420.9	\$268.1	19 %
Short-term investments	632.7	527.1	105.6	20 %
Long-term investments	1,158.4	1,244.2	(85.8)	(7)%
Total cash, cash equivalents, and investments	3,480.1	3,192.2	287.9	9 %
Short-term and long-term debt <sup>(*)</sup>	2,133.1	1,937.4	195.7	10 %
Net cash, cash equivalents, and investments	\$1,347.0	\$ 1,254.8	\$92.2	7 %

During the nine months ended September 30, 2016, we adopted Accounting Standards Update, or ASU, No.

(\*) 2015-03 (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. Short-term and long-term debt as of December 31, 2015 was retrospectively adjusted to conform to the current-year presentation.

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by short-term debt, accounts payable, accrued liabilities, and short-term deferred

revenue. Working capital increased by \$810.5 million during the nine months ended September 30, 2016 primarily due to \$772.2 million of cash provided from our operating activities and \$494.0 million of proceeds received from the issuance of long-term debt, partially offset by \$438.3 million of payments for purchases and retirement of our common stock and cash dividends.

#### Summary of Cash Flows

As of September 30, 2016, compared to December 31, 2015, our cash and cash equivalents increased by \$268.1 million primarily due to proceeds from the issuance of our 2019 Notes and 2024 Notes, net proceeds from the sales and maturities of available-for-sale investments, and cash from operations, partially offset by purchases and retirement of our common stock in connection with our stock repurchase program, payment of our 2016 Notes, capital expenditures, dividend payments, and payments for business acquisitions.

Table of Contents

The following table summarizes cash flows from our Condensed Consolidated Statements of Cash Flows (in millions, except percentages):

	Nine Months Ended September 30,			
	2016	2015	\$	%
			Change	Change
Net cash provided by operating activities	\$772.2	\$775.5	\$(3.3 )	— %
Net cash used in investing activities	\$(308.3)	\$(470.0)	\$161.7	(34 )%
Net cash used in financing activities	\$(196.0)	\$(476.2)	\$280.2	(59 )%

**Operating Activities**

Net cash provided by operations for the nine months ended September 30, 2016 was \$772.2 million, compared to \$775.5 million for the same period in 2015. The decrease was primarily due to an increase in cash payments to suppliers and employees and an increase in income taxes paid, partially offset by an increase in cash receipts from customers.

**Investing Activities**

For the nine months ended September 30, 2016, net cash used in investing activities was \$308.3 million, compared to net cash used in investing activities of \$470.0 million for the nine months ended September 30, 2015. The decrease was primarily due to lower net purchases of available-for-sale investments, partially offset by higher cash used for business acquisitions in 2016 to acquire BTI and Aurrion during the nine months ended September 30, 2016 compared to the same period in 2015.

**Financing Activities**

Net cash used in financing activities was \$196.0 million for the nine months ended September 30, 2016, compared to net cash used in financing activities of \$476.2 million for the same period in 2015. The decrease was primarily due to fewer purchases and retirements of our common stock in 2016, partially offset by the payment of our 2016 Notes and a decrease in cash proceeds received from the issuance of long-term debt during the nine months ended September 30, 2016.

**Stock Repurchase Activities**

In February 2014, our Board of Directors, which we refer to as the Board, approved a stock repurchase program that authorized us to repurchase up to \$2.1 billion of our common stock, including \$1.2 billion pursuant to an accelerated share repurchase program, or the 2014 Stock Repurchase Program. In October 2014 and July 2015, the Board authorized a \$1.3 billion and a \$500.0 million increase, respectively, to the 2014 Stock Repurchase Program for a total of \$3.9 billion. As of September 30, 2016, there was \$219.7 million of authorized funds remaining under the 2014 Stock Repurchase Program.

During the three and nine months ended September 30, 2016, we repurchased and retired approximately 4.9 million and 13.5 million shares of our common stock, respectively, under the 2014 Stock Repurchase Program at an average price of \$23.04 and \$23.25 per share, respectively, for an aggregate purchase price of \$112.4 million and \$312.9 million, respectively.

From the first quarter of 2014 through September 30, 2016, inclusive of share repurchases and dividends, we have returned approximately \$4.06 billion of capital to shareholders against our commitment to return \$4.1 billion by the end of 2016. On October 25, 2016, the Company announced that it had declared a cash dividend of \$0.10 per share of

common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016. As such, we expect to achieve our full commitment to return \$4.1 billion by the end of 2016. Beginning in 2017, we intend to target a capital return policy, inclusive of share repurchases and dividends, of approximately 50% of annual free cash flow. Free cash flow is calculated as net cash provided by operating activities less capital expenditures.

Future stock repurchases under our stock repurchase program will be subject to a review of the circumstances 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. See Note 16, Subsequent Events, in Notes to Condensed Consolidated Financial Statements in Item 1 Part I of this Report, for discussion of our stock repurchase activity subsequent to September 30, 2016.

Table of Contents

## Dividends

During the nine months ended September 30, 2016, we declared a quarterly cash dividend of \$0.10 per share of common stock on January 27, 2016, April 28, 2016, and July 26, 2016, which were paid on March 22, 2016, June 22, 2016, and September 22, 2016, respectively, to stockholders of record on March 1, 2016, June 1, 2016, and September 1, 2016, respectively, in the aggregate amount of \$114.4 million. Any future dividends, and the establishment of record and payment dates, are subject to approval by the Board of Juniper Networks or authorized committee thereof. See Note 16, Subsequent Events, in Notes to Condensed Consolidated Financial Statements in Item 1 Part I of this Report, for discussion of our dividend declaration subsequent to September 30, 2016.

## Deferred Revenue

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

	As of			
	September 30,	December 31,	\$	%
	2016	2015	Change	Change
Deferred product revenue:				
Undelivered product commitments and other product deferrals	\$250.4	\$ 210.1	\$ 40.3	19.2 %
Distributor inventory and other sell-through items	92.8	81.8	11.0	13.4 %
Deferred gross product revenue	343.2	291.9	51.3	17.6 %
Deferred cost of product revenue	(45.3 )	(51.6 )	6.3	(12.2)%
Deferred product revenue, net	297.9	240.3	57.6	24.0 %
Deferred service revenue	1,006.2	927.8	78.4	8.5 %
Total	\$1,304.1	\$ 1,168.1	\$ 136.0	11.6 %

Total deferred revenue increased by \$136.0 million to \$1,304.1 million as of September 30, 2016, compared to \$1,168.1 million as of December 31, 2015, primarily due to an increase in deferred service revenue of \$78.4 million driven by an increase in multi-year support agreements, which are billed in advance.

## Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any relationships with 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 financial guarantees consisting of guarantees of product and service performance and standby letters of credit for certain lease facilities and insurance programs. See Note 15, 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 September 30, 2016, our principal commitments consist of obligations under operating leases, purchase commitments, debt, and other contractual obligations. There have been no significant changes to the nature of these obligations, during the nine months ended September 30, 2016 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, 2015, other than the obligations listed in the table below (in millions):

Payments Due by Period  
Total

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

		Less than 1 year	1-3 years	3-5 years	More than 5 years
2019 Notes <sup>(*)</sup>	\$350.0	\$—	\$350.0	\$—	\$—
2024 Notes <sup>(*)</sup>	\$150.0	\$—	\$—	\$—	\$150.0
Interest payment on the 2019 Notes and 2024 Notes <sup>(*)</sup>	\$78.0	\$17.7	\$29.9	\$13.5	\$16.9

---

(\*) For further explanation of our debt, see Note 9, Debt and Financing, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report.

49

---



## Table of Contents

During the nine months ended September 30, 2016, we also repaid the aggregate principal amount owed of \$300.0 million on our 2016 Notes.

### Revolving Credit Facility

On June 27, 2014, we entered into a Credit Agreement with certain institutional lenders that provides for a five year \$500.0 million unsecured revolving credit facility, with an option to increase the amount of the credit facility by up to an additional \$200.0 million, subject to certain conditions. Proceeds from borrowings made under the Credit Agreement may be used by us for working capital and general corporate purposes. Revolving loans may be borrowed, repaid and reborrowed until June 27, 2019, at which time all amounts borrowed must be repaid.

The Credit Agreement requires us to maintain a leverage ratio no greater than 3.0x and an interest coverage ratio no less than 3.0x during the term of the credit facility. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens, merge or consolidate, dispose of all or substantially all of its assets, change their accounting or reporting policies, change their business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. As of September 30, 2016, the Company was in compliance with all covenants in the Credit Agreement, and no amounts were outstanding. See Note 9, Debt and Financing, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report.

### Liquidity and Capital Resources

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, beginning in 2017 we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. To the extent we repurchase additional shares of our common stock under our stock repurchase program or pay cash dividends on our common stock, our liquidity may be impacted. As of September 30, 2016, 91% of our cash, cash equivalents, and investment balances were held outside of the U.S., which may be subject to U.S. taxes if repatriated.

In August 2016, we filed an automatic shelf registration statement with the SEC enabling us to offer for sale, from time to time, an unspecified amount of securities in one or more offerings and is intended to give us flexibility to take advantage of financing opportunities as needed or deemed desirable in light of market conditions. Our 2019 Notes and 2024 Notes were issued under an automatic shelf registration statement that we filed in August 2013 pursuant to a prospectus supplement filed with the SEC on February 24, 2016. Our 2020 Notes and 2025 Notes were issued under an automatic shelf registration statement pursuant to a prospectus supplement filed with the SEC on February 26, 2015 and our \$350.0 million in principal amount of our 2024 Notes, which form a single series and are fully fungible with our 2024 Notes issued in 2016, were issued under an automatic shelf registration statement pursuant to a prospectus filed with the SEC on February 28, 2014. Any offerings of securities under our automatic shelf registration statement will be made pursuant to a prospectus. In addition, our Revolving Credit Facility will also provide additional flexibility for future liquidity needs.

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 2016, we intend to target the number of shares underlying equity awards granted on an annual basis at 2.40% or less of our common stock outstanding on a pure share basis (where each option, RSU, RSA or PSA granted is counted as one share). Based upon shares underlying our grants to date of options, RSUs, RSAs, and PSAs, we believe we are on track with respect to this goal for 2016.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term, and long-term investments, together with cash generated from operations and access to capital markets and the revolving credit facility under the Credit Agreement will be sufficient to fund our operations, planned stock repurchases and dividends, 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, but not limited to:

• 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;

50

---

Table of Contents

- payment of dividends;
- 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;
- 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;
- 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2015. 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, 2015.

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 Over Financial Reporting

During the first quarter of 2016, we completed the final phase of our multi-phase conversion to a new enterprise resource planning, or ERP, system by implementing the Customer Relationship Management, or CRM, and Financial Accounting & Reporting modules. As a result of this implementation, in the first quarter of 2016, internal controls were modified to align with the modified business processes and new system-based controls were implemented to adapt to the new ERP system functionalities. Certain interim controls put into operation in the first quarter of 2016 were phased out in part during the third quarter of 2016 as we achieve stabilization.

Except as described above, there were no changes in our internal control over financial reporting that occurred during the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the “Legal Proceedings” section in Note 15, 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. 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; 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 the mix of geographies in which our products and services are sold, changing market and economic conditions, current and potential customer, partner and supplier consolidation and concentration, competition, long sales and implementation cycles, unpredictable ordering patterns, changes in the amount and frequency of share repurchases or dividends, 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 quarter. Furthermore, market trends, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, issues with product quality, 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. Such adjustments may be difficult or impossible to execute in the short or medium term.

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 quarters, our operating results will 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 and has declined in the past. Such a decline could also 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 and gross margin 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 or uncertainty, 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 instability or uncertainty, as well as continued turmoil in the geopolitical environment in many parts of the world, have, and may continue to, put pressure on economic conditions, which has led and could lead, to reduced demand for our products, to delays or reductions in network expansions or infrastructure projects, and/or higher costs of production. More generally-speaking, 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, instability in the global credit markets 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. 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. Therefore, fluctuations in revenue could cause significant variations in our operating results and operating margins from quarter to quarter.

Table of Contents

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 result in price concessions in certain markets or have a material adverse effect on demand for our products and consequently on our business, financial condition, and results of operations.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business through rapidly fluctuating economic and market conditions, and such actions may have an adverse effect on our financial and operating results.

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.

From time to time, 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 2014, to refocus the Company's strategy, optimize its structure and improve operational efficiencies, we implemented a new strategic focus, realigned our organization into a One-Juniper structure, reduced our workforce, consolidated and closed facilities, made changes to enhance efficiency, improved cost management measures and instituted a new capital allocation plan. In connection with our cost management measures, we implemented a substantial cost reduction plan accomplished through various restructuring activities across research and development, sales and marketing and general and administrative. We recorded a goodwill impairment charge of \$850.0 million in the fourth quarter of 2014 due to the underperformance of our Security reporting unit and product rationalizations. Further strategy-related pivots could lead to delays in achieving revenue and profit forecasts and result in additional impairment. Some of our expenses are fixed costs that cannot be rapidly or easily adjusted in response to fluctuations in our business or numbers of employees. Rapid changes in the size, alignment or organization of our workforce, including sales account coverage, 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 and financial 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.

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

We expect our product and service gross margins to vary, both in the near-term and in the long-term, 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, an increase or decrease in our software sales or services we provide, increased price competition in one or more of the markets in which we compete, changes in the actions of our competitors or their pricing strategies, which may be difficult to predict and respond to, currency fluctuations that impact our costs or the cost of our products and services to our customers, increases in material, labor, or inventory carrying costs, excess product component or obsolescence charges from our contract manufacturers, issues with manufacturing quality or efficiencies, 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 and enhancements or entry into new markets with different pricing and cost structures. For example, in fiscal year 2015, our margins increased compared to fiscal year 2014, as a result

of higher restructuring and other (benefit) charges recorded in 2014 but not in 2015, in connection with the restructuring plan we initiated in the first quarter of 2014. In fiscal year 2014, our margins declined compared to fiscal year 2013, as a result of higher inventory charges resulting from product rationalizations in connection with our 2014 restructuring plan and an industry-wide memory product quality defect for a component from a third party. 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. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

Further, we will continue to remain diligent in our long-term financial objective to increase revenue and operating margins and manage our operating expenses as a percentage of revenue. We expect that our margins will vary with our ability to achieve these goals. We can provide no assurance that we will be able to achieve all or any of the goals of these plans or meet our announced expectations, in whole or in part, or that our plans will have the intended effect of improving our margins on the expected timeline, or at all.



## Table of Contents

A limited number of our customers comprise a material portion of our revenues and any changes in the way they purchase products from us could affect our business. In addition, 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 material portion of our net revenues depend on sales to a limited number of customers and distribution partners, particularly in our service provider market. Changes in the business requirements or focus, vendor selection, project prioritization, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers could significantly decrease our 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, Altice's purchase of Cablevision and Portugal Telecom, Liberty Global's acquisition of Cable & Wireless Communications, Charter Communications, Inc.'s acquisition of Time Warner Cable, Inc., and CenturyLink's proposed acquisition of Level 3 Communications) and that consolidation trend has continued. Certain telecommunications companies have also announced their intent towards vertical consolidation through acquisitions of media and content companies, such as Verizon's proposed acquisition of Yahoo and AT&T's proposed acquisition of Time Warner. 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 direct or indirect unforeseen consequences could harm our business, financial condition, and results of operations.

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 serve. The network equipment market has historically been dominated by Cisco, with competition coming from other companies such as Nokia Corporation (following its acquisition of Alcatel-Lucent), Arista, Brocade, HP, and Huawei. In the security market, we face intense competition from Cisco and Palo Alto Networks, as well as companies such as Check Point, F5 Networks, Fortinet, and HP. 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 by, or 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. For example, in recent years, Nokia Corporation merged with Alcatel-Lucent, HP acquired Aruba Networks, Cisco acquired OpenDNS, Symantec Corporation acquired Blue Coat Systems, and Dell acquired EMC, which further consolidated our market. 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. In addition, some of our competitors have become more integrated, including through consolidation, and offer a broader range of products and services, which could make their solutions more attractive to our customers. Many of our competitors sell networking products as bundled solutions with other IT products, such as computer and storage systems. 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. Our partners and resellers generally sell or resell competing products on a non-exclusive basis and consolidation could delay spending or require us to increase discounts to compete, which could also adversely affect our business.

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

Table of Contents

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.

The timing of product orders and/or our reliance on revenue from sales of software or subscription and support and maintenance services may cause us to recognize revenue in a different period than the one in which a transaction takes place. This may make it difficult for investors to observe quarterly trends and may cause significant variations in our operating results and operating margin on a quarterly basis.

Generally, our network equipment products are stocked only in limited quantities by our distributors and resellers due to the cost, complexity and custom nature of configurations required by our customers; we generally build such products as orders are received. The volume of orders received late in any given fiscal quarter remains unpredictable. If orders for certain products are received late in any quarter, we may not be able to recognize revenue for these orders in the same period, which could adversely affect our ability to meet our expected revenues for such quarter.

In addition, services revenue accounts for a significant portion of our revenue, comprising 27%, 26%, and 25% of total revenue in fiscal year 2015, 2014, and 2013, respectively. Sales of new or renewal support and maintenance contracts may decline and/or fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and services, the prices of our products and services, the prices of products and services offered by our competitors, and reductions in our end-customers' spending levels. We recognize support and maintenance revenue periodically over the term of the relevant service period.

The introduction of new software products is part of our intended strategy to expand our software business, and software revenues may be recognized periodically over the term of the relevant use period or subscription period. As a result, much of the software, subscription and support and maintenance revenue we report each fiscal quarter is the recognition of deferred revenue from software, subscription and support and maintenance contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed contracts in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our software, subscriptions or support and maintenance is not reflected in full in our operating results until future periods. Also, it is difficult for us to rapidly increase our software or services revenue through additional software or services sales in any period, as revenue from new and renewal software, subscription and support and maintenance contracts must be recognized over the applicable service period.

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.

If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products, product enhancements and business strategies that meet those technological shifts, needs and opportunities, or if those products are not made available or strategies are not executed 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.

The markets for our products are characterized by rapid technological change, frequent new product introductions, changes in customer requirements, continued price pressures and a constantly evolving industry. We cannot guarantee that we will be able to anticipate future technological shifts, market needs and opportunities or be able to develop new products, product enhancements or business strategies 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 networking, or 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. If we fail to anticipate market requirements or opportunities or fail to develop and introduce new products, product enhancements or business strategies to meet those requirements or opportunities 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 and services, 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, enhancements or business strategies, there can be no assurance that new products, enhancements or business strategies will achieve widespread market acceptance.

In the past two years, we have announced a number of new products and enhancements to our hardware and software products across routing, switching and security, including ACX5000 and ACX500 routers, QFX10000 line of spine switches, QFX5100, QFX5200, QFX5100-AA, QFX-PFA, SRX300, SRX1500, SRX5000 with Express Path and SRX5800 Series Services Gateways, EX9200, EX4600, EX2300 and EX3400 Ethernet Switches, new MX Series line cards and routers (including the vMX 3D Universal

Table of Contents

Edge Router), new PTX Series line cards (powered by our ExpressPlus custom silicon), Junos Fusion Provider Edge, Junos Fusion Data Center, Junos Fusion Enterprise, a disaggregated version of Junos Software, OCX1100, PTX1000, vSRX and cSRX virtual firewalls, Sky Advanced Threat Prevention (ATP), Spotlight Secure, Junos Space Security Director, Junos Space Virtual Director, Juniper Networks Contrail Networking, Contrail Service Orchestration, the NFX250 network services platform and cSRXcompact and containerized firewall and Cloud-Enabled Branch. In the third quarter of 2016, we unveiled enhancements to Junos Space Security Director and Sky ATP and launched the new SRX4100 and SRX4200 firewalls, as well as Junos Space Security Director Policy Enforcer to further build out our Software-Defined Secure Networks platform. The success of our new products depends on several factors, including, but not limited to, component costs, timely completion and introduction of these products, prompt resolution of any defects or bugs in these products, differentiation of new products from those of our competitors and market acceptance of these products.

The introduction of new software products is part of our intended strategy to expand our software business. We have also begun to disaggregate certain software from certain hardware products, such that customers would be able to purchase or license our hardware and software products independently, which we expect could in time enable our hardware to be deployed with third party networking applications and services and our software to be used with third party hardware. For example, we have developed a disaggregated version of our Junos software and introduced our QFX5200 series of switches, which runs our disaggregated Junos software. The success of our strategy to expand our software business, including our strategy to disaggregate software from certain hardware products, is subject to a number of risks and uncertainties, including:

- the additional development efforts and costs required to create new software products and/or to make our disaggregated products compatible with multiple technologies;

- the possibility that our new software products or disaggregated products may not achieve widespread customer adoption;

- the potential that our strategy could erode our revenue and gross margins;

- the impact on our financial results of longer periods of revenue recognition and changes in tax treatment associated with software sales;

- the additional costs associated with regulatory compliance and changes we need to make to our distribution chain in connection with increased software sales;

- the ability of our disaggregated hardware and software products to operate independently and/or to integrate with current and future third party products; and

- the risk that issues with third party technologies used with our disaggregated products will be attributed to us.

If any of our new products or business strategies do not gain market acceptance or meet our expectations for growth, our ability to meet future financial targets may be adversely affected and our competitive position and our business and financial results could be harmed.

We are dependent on contract manufacturers with whom we do not have long-term supply contracts, and changes to or disruptions in those relationships or manufacturing processes, expected or unexpected, may result in delays 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. We have experienced in the past and may experience in the future an increase in the expected time required to manufacture our products or ship products. Such delays could result in supply shortfalls that damage our ability to meet customer demand for those products and could cause our customers to purchase alternative products from our competitors. Also, the addition of manufacturing locations or contract manufacturers or the introduction of new products by us 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

## Table of Contents

subject to risks associated with doing business outside of the United States. Each of these factors could adversely affect 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, who 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 certain prior quarters, 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 have in certain prior quarters 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 delay or interrupt manufacturing of our products resulting in delays in shipments and deferral or loss of revenues and negatively impacting customer satisfaction.

System security risks, data protection breaches, and cyber-attacks could compromise our proprietary information, disrupt our internal operations and harm public perception of our 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, personal data, our proprietary business information and proprietary business information of our customers, suppliers and business partners on our networks. In addition, we store sensitive data through cloud-based services that may be hosted by third parties and in data center infrastructure maintained by third parties. The secure maintenance of this information is critical to our operations and business strategy. The growing cyber risk environment means that individuals, companies, and organizations of all sizes including us, are increasingly subject to the threat of intrusions on their networks and systems by a wide range of actors on an ongoing and regular basis. Despite our security measures, and those of our third-party vendors, our information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers, hackers or sophisticated nation-state and nation-state supported actors or breached due to employee error, malfeasance or other disruptions. If any breach compromises our networks, creates system disruptions or slowdowns or exploits security vulnerabilities of our products, the information stored on our networks could be accessed and modified, publicly disclosed, lost or stolen, and we may be subject to liability to our customers, suppliers, business partners and others, and suffer 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. This can be true even for "legacy" products that have been determined to have reached an end of life engineering status but will continue to operate for a limited amount of time.

For example, in December 2015, we disclosed that we identified unauthorized code in our ScreenOS security system that could allow a knowledgeable attacker to gain administrative access to NetScreen devices and to decrypt VPN connections. Following the identification of the ScreenOS vulnerabilities, we launched an investigation into the matter, developed patched releases for the latest versions of ScreenOS and notified customers, all of which required significant time and attention from management and our employees. In addition, we announced that we were making additional changes to ScreenOS in response to our additional analysis and, in April 2016, we announced that we had made those changes as a part of an update of ScreenOS. The investigation is ongoing. At this time, we do not have an estimate of third party costs related to the ScreenOS matter that could result from any third party claims brought against us, including, for example, indemnification for damages our customers may incur or actions instituted by

governmental or regulatory entities that could result in fines or other penalties. Costs related to the ScreenOS matter, including the costs to resolve third party claims, costs relating to the investigation and the time and resources required to develop patched releases and further modify the products, may be material.

As a result of the ScreenOS matter, or any other actual or perceived breach of network security that occurs in our network or in the network of a customer of our products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products and our overall reputation could be harmed. Because the techniques used by attackers, 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 or the vulnerabilities they have caused. This could impede our sales, manufacturing, distribution or other critical functions, which could have an adverse impact on our financial results. The economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities, including the ScreenOS matter, could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the attacker, which are often



Table of Contents

difficult to pinpoint. Additionally, we could be subject to regulatory investigations, potential fines and litigation in connection with a security breach or related issue and be liable to third parties for these types of breaches.

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.

We rely on single or limited sources of certain of our components. During periods of high demand for electronic products, component shortages are possible, and the predictability of the availability of such components may be limited. For example, some optical transceivers and memory components used in our networking solutions might experience extended lead times, given the demand in the market. Any future spike in growth in our business, or more likely in IT spending and the economy in general is likely to create greater short-term 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 and other semiconductor chips, from single or limited sources and many of our component suppliers are concentrated in China. In addition, there has been consolidation among certain suppliers of our components. For example, GLOBALFOUNDRIES recently acquired IBM's semiconductor manufacturing business, Avago Technologies Limited recently acquired Broadcom Corporation and Intel Corporation recently acquired Altera Corporation. Consolidation among suppliers can result in the reduction of the number of independent suppliers of components available to us, which could negatively impact our ability to access certain component parts or the prices we have to pay for such parts. Any disruptions to our supply chain could decrease our sales, earnings and liquidity or otherwise adversely affect our business and result in increased costs. Such a disruption could occur as a result of any number of events, including, but not limited to, increases in wages that drive up prices, the imposition of regulations, quotas or embargoes on key components, labor stoppages, transportation failures affecting the supply and shipment of materials and finished goods, the unavailability of raw materials, severe weather conditions, natural disasters, civil unrest, geopolitical developments, war or terrorism and disruptions in utility and other services.

The development of alternate sources for key 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 products and services 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, Nokia Solutions and Networks O.Y., Dimension Data and NEC Corporation. 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 competing products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our resellers or distributors could materially reduce our revenues. For example, in 2011 and 2012, one of our OEM partners, Dell, acquired Force10 and SonicWall, both competitors of ours. As a result, Dell became increasingly competitive in certain areas, their resale of our products declined, and we ultimately terminated our OEM relationship with Dell. In addition, in 2016, Nokia Corporation merged with Alcatel-Lucent, a competitor of ours, and Cisco recently announced a partnership with Ericsson, which is one of our existing partners. 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, fail to expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, determine that we cannot continue to do business with these partners for any reason

Table of Contents

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. We also depend on our global channel partners to comply with applicable legal and regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition.

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, data center providers 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, or IT, systems, the systems and processes of third parties, and 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. In addition, as discussed earlier in this Risk Factors section, beginning in 2012 and continuing into 2016, we have been implementing major changes to our ERP system. Any failure of the new system or interruptions during the implementation process may impair communications with our manufacturers, and, therefore, adversely affect our ability to build and ship our products.

We are also in the process of further consolidating our on-site data centers to the cloud and to off-site facilities that are hosted and controlled by third-parties. These cloud providers and off-site facilities are vulnerable to damage, interruption or performance problems from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures, equipment failure, adverse events caused by operator error and similar events. In addition, because we lease our cloud storage space and off-site data center facilities, we cannot be assured that we will be able to expand our data center infrastructure to meet user demand in a timely manner, or on favorable economic terms. If we have issues receiving and processing data, this may delay our ability to provide products and services to our customers and damage our business. 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, we have experienced instances where our contract manufacturers were not able to ship products in the time periods expected by us, which prevented us from meeting our commitments to our customers. 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

harm.

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 August 2016, we acquired Aurrion, Inc.; in April 2016, we acquired BTI Systems Inc.; in 2014, we acquired WANDL, Inc.; and in 2012, we acquired Contrail Systems Inc. and Mykonos Software, Inc. Acquisitions involve numerous risks, including, but not limited to, problems combining the purchased operations, technologies or products, unanticipated costs and liabilities, 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

60

---

Table of Contents

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.

In connection with certain acquisitions, we may agree 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.

Conversion of key internal systems and processes, particularly our ERP system, and problems with the design or implementation of these systems and processes could interfere with, and therefore harm, our business and operations.

We have underway a multi-phase project to convert certain key internal systems and processes, including our customer relationship management, or CRM, system and enterprise resource planning, or ERP, system. Since 2012, we have been implementing major changes to our ERP system, which activities we expect to continue into 2016. In the third quarter of 2014, we implemented the manufacturing, fulfillment, and inventory portion of this ERP project and were reliant upon dual ERP systems until January 2016 when we moved to a single ERP System. In connection with the transfer to our new ERP system, we scheduled a shutdown of certain of our legacy ERP systems, which impacted our DSO in the first quarter of 2016. We are still early in the process of operating under our new ERP system and may need to resolve issues that arise in connection with this transition. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes. Any problems, disruptions, delays or other issues in the design and implementation of the new systems or processes, particularly any 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, collect cash from our customers, maintain our DSO measure, fulfill contractual obligations, record and transfer information in a timely and accurate manner, recognize revenue, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects, as noted above, the design and implementation of these new systems and processes may be much more costly than we anticipated and in the event of lengthy project delays, we may experience issues with retention of the implementation team. 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 lengthy or costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

Telecommunications, cable and cloud service provider companies and our other large customers generally require 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, cable and cloud service provider companies, which comprise a significant portion of our customer base, and other large companies, generally have greater purchasing power than smaller entities and, accordingly, often request and receive more favorable terms from suppliers. For example, our customers 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, increase our costs 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.

In addition, 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. In addition, increased patent litigation brought against customers by non-practicing entities in recent years, may result, and in some cases has resulted, in customers requesting or requiring vendors to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations.

Table of Contents

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

We, and certain of our current and former officers and current and former members of our Board of Directors, have been or 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. As noted in Note 15, Commitments and Contingencies, in Notes to Consolidated Financial Statements of this Report, under the heading of “Legal Proceedings”, the U.S. Securities and Exchange Commission, or the SEC, and the U.S. Department of Justice, or the DOJ, are conducting investigations into possible violations by the Company of the U.S. Foreign Corrupt Practices Act, or the FCPA, in a number of countries. The investigations relate to whether the Company or any third party on behalf of the Company gave money or anything else of value to any government official in violation of the FCPA. The Company’s Audit Committee, with the assistance of independent advisors, has been investigating and conducting a thorough review of possible violations of the FCPA, and has made recommendations for remedial measures, including employee disciplinary actions in foreign jurisdictions, which the Company has implemented and continues to implement. Litigation and investigations are inherently uncertain. We therefore cannot predict the duration, scope, outcome or consequences of litigation and government investigations. In connection with any government investigations, including those in which we are currently involved as described above, if the government takes action against us or we agree to settle the matter, we may be required to pay substantial fines and incur other sanctions, which may be material, and suffer reputational harm. The lawsuits and investigations are expensive and time-consuming to defend, settle, and/or resolve, and may require us to implement certain remedial measures that could prove costly or disruptive to our business and operations. The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition or cash flows.

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. In addition, increased patent litigation brought by non-practicing entities in recent years may result, and in some cases has resulted, in our customers requesting or requiring us to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations. 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, enter into license agreements, or cease engaging in certain activities or offering certain products or services. 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 or anyone we are required to indemnify by any third-party is successful, if we are required to settle litigation for significant amounts of money, if we fail to develop non-infringing technology or if we license required proprietary rights, our business, financial condition, and results of operations could be materially and adversely affected.

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

We are subject to laws and regulations affecting the sale of our products in a number of areas. For example, 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. Other regulations that may negatively impact our business include country of origin regulations. These types of regulations are in effect or under consideration in several jurisdictions where we do business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements applicable to public companies regarding the use of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries, which we refer to collectively as the DRC, and procedures regarding a manufacturer's efforts to prevent the sourcing of such “conflict minerals.” These minerals are present in our products. SEC rules implementing these requirements may have the effect of reducing the pool of suppliers who can supply DRC “conflict free” components and parts, and we may not be able to obtain DRC conflict free products or supplies in sufficient quantities for our operations. Since our supply chain is complex, we may face reputational



## Table of Contents

challenges with our customers, stockholders and other stakeholders if we are unable to sufficiently verify the origins for the "conflict minerals" used in our products.

In addition, environmental laws and regulations relevant to electronic equipment manufacturing or operations, including laws and regulations governing the hazardous material content of our products and laws relating to the collection of and recycling of electrical and electronic equipment, may adversely impact our business and financial condition. These laws and regulations include, among others, the European Union, or EU, Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive, or RoHS. The EU RoHS and the similar laws of other jurisdictions limit the content of certain hazardous materials such as lead, mercury, and cadmium in the manufacture of electrical equipment, including our products. Currently, our products comply with the EU RoHS requirements. However, certain exemptions are scheduled to lapse, including an exemption for lead in network infrastructure equipment upon which we and our competitors had relied, which expired in July 2016. The lapse of this exemption, further changes to this or other laws, or passage of similar laws in the EU or other jurisdictions, would require us to cease selling non-compliant products in the EU and to reengineer our products to use components compatible with these regulations. This reengineering and component substitution could result in additional costs to us, disrupt our operations or logistics, and result in an adverse impact on our operating results. In addition, in validating the compliance of our products with applicable hazardous materials restrictions, we rely substantially on affirmations by our component suppliers as to the compliance of their products with respect to those same restrictions. Failure by our component suppliers to furnish accurate and timely information could subject us to penalties or liability for violation of such hazardous materials restrictions, interrupt our supply of products to the EU, and result in our customers refusing or being unable to purchase our products. Additionally, the EU and a number of other countries have adopted regulations requiring producers of electrical and electronic equipment to assume certain responsibilities for collecting, treating, recycling and disposing of products when they have reached the end of their useful life. Finally, the EU REACH regulations regulate the handling of certain chemical substances that may be used in our products.

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 providers or cloud provider companies. Regulations governing the range of services and business models that can be offered by service providers or cloud provider companies could adversely affect those customers' needs for products. For instance, the U.S. Federal Communications Commission has issued regulations governing aspects of fixed broadband networks and wireless networks. These regulations, which are being challenged in court, might impact service provider and cloud 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.

The adoption and implementation of additional 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, require us to spend significant time and expense to comply, and subject us to 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 and economic sanctions affecting the import or export of products generally or affecting products containing encryption capabilities could negatively affect our revenues and operating results.

The United States and various foreign governments have imposed controls and restrictions on the import or export of, among other things, our products that contain or use encryption technology. Most of our products contain or use encryption technology and, consequently, are subject to such controls, requirements and restrictions. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring certification, notifications, review of source code, limiting the encryption features or the escrow and governmental recovery of private encryption keys. For example, China recently has proposed new conditions on eligibility of encryption products for purchase by government and certain non-government organizations. India recently proposed and then withdrew regulations imposing serious conditions on the use of encryption in telecommunications products. We sell our products to both commercial customers and, directly and indirectly, to governments around the world. Our ability to sell into substantial government markets (whether or not the products we sell include encryption) is vulnerable to changes in government procurement regulations, any associated local content requirements and changes in the government's interpretation of such regulations. In addition, the U.S. government has broader sanctions and embargoes that generally forbid supply of most items to or involving certain countries, territories, governments, legal entities and individuals, including recent restrictions imposed by the U.S. and EU on exports to Russia and Ukraine. We have implemented systems to

Table of Contents

detect and prevent sales into these countries or to prohibited entities or individuals, but there can be no assurance that they will always be effective.

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, or related economic sanctions could harm our international and domestic sales and adversely affect our revenues and operating results. In addition, failure to comply with such regulations could result in harm to our reputation and ability to compete in international markets, penalties, costs, seizure of assets (including source code) and restrictions on import or export privileges or adversely affect sales to government agencies or government-funded projects.

Our actual or perceived failure to adequately protect personal data could adversely affect our business, financial condition and results of operations.

A variety of state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These privacy- and data protection-related laws and regulations are evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations. Compliance with these laws and regulations can be costly and can delay or impede the development and offering of new products and services.

For example, we previously relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU Safe Harbor Framework, which we refer to as the Safe Harbor, agreed to by the U.S. Department of Commerce and the EU. The Safe Harbor, which established means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area, or EEA, to the U.S., was invalidated in 2015 by a decision of the European Court of Justice, or the ECJ. Now that the EU and U.S. have reached official agreement on a successor privacy framework called the Privacy Shield, we are reviewing and documenting our practices required to obtain certification under the Privacy Shield, in addition to entering into EU Model Contracts with our vendors where feasible. In addition, the recent approval by voters in the United Kingdom, or U.K., of a referendum to leave the EU could require us to make additional changes to the way we conduct our business and transmit data between the U.K. and the EU.

Our actual or alleged failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement actions, significant penalties or other legal action against us or our customers or suppliers, which could result in negative publicity, increase our operating costs, subject us to claims or other remedies and have a material adverse effect on our business, financial condition, and results of operations.

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, 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.

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 intangible assets with indefinite lives, including goodwill, annually or more frequently if certain circumstances change that would more likely than not reduce the fair value of a reporting unit and intangible assets below their carrying values. As of September 30, 2016, our goodwill was \$3,048.4 million and intangible assets with indefinite lives was \$49.0 million. When the carrying value of a reporting unit's goodwill exceeds its implied fair value of goodwill, a charge to operations is recorded. If the carrying amount of an intangible asset with an indefinite life exceeds its fair value, a charge to operations is recorded. Either event 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.

In the past, we recorded a goodwill impairment charge of \$850.0 million due to the underperformance of our Security reporting unit and product rationalizations.

## Table of Contents

In recent years, economic weakness has contributed to extreme price and volume fluctuations in global stock markets that have reduced the market price of many technology company stocks, including ours. Declines in our level of revenues due to restructuring or cost reductions or declines in our operating margins, as well as sustained declines in our stock price, increase the risk that goodwill and intangible assets with indefinite lives may become impaired in future periods.

Our goodwill impairment analysis is sensitive to changes in key assumptions used in our analysis, such as expected future cash flows, the degree of volatility in equity and debt markets, and our stock price. If the assumptions used in our analysis are not realized, it is possible that an impairment charge may need to be recorded in the future. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. However, any such impairment would have an adverse effect on our results of operations.

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 the following: 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; challenges to our methodologies for valuing developed technology or intercompany arrangements; or changes in tax laws, regulations, accounting principles, or interpretations thereof. On October 5, 2015, the Organisation for Economic Co-operation and Development, or OECD, an international association of 35 countries including the U.S., published final proposals under its Base Erosion and Profit Shifting, or BEPS, Action Plan. The BEPS Action Plan includes fifteen Actions to address BEPS in a comprehensive manner and represents a significant change to the international corporate tax landscape. These proposals, if adopted by countries, may increase tax uncertainty and adversely affect our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service, or IRS, and other tax authorities. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made. There can be no assurance that the outcomes from continuous examinations will not have an adverse effect on our business, financial condition, and results of operations.

We may face difficulties enforcing our proprietary rights which could adversely affect our ability to compete.

We generally rely on a combination of patents, copyrights, trademarks, and trade secret laws and contractual 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 pending, there can be no assurance that any of our patent applications will result in issued patents or that any of our 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, any of which could result in costly product redesign efforts, discontinuance of certain product offerings and other competitive harm.

In addition, despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and customers, and generally limit access to and distribution of our proprietary information. However, we cannot assure you that we have entered into such agreements with all parties who may have or have had access to our confidential information or that the agreements we have entered into will not be breached. We cannot guarantee that any of the measures we have taken will prevent misappropriation of our technology.

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.

## Table of Contents

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 substantial portion of our revenues from our international operations, and we plan to continue expanding our business in international markets. 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, business 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;

• 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;

• varying and potentially conflicting laws and regulations;

• fluctuations in local economies;

• wage inflation or a tightening of the labor market; and

• 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.

In addition, the recent approval by voters in the U.K. of a referendum to leave the EU has caused, and may continue to cause, uncertainty in the global markets. The U.K.'s proposed exit from the EU, if implemented, will take some period of time to complete and could result in regulatory changes that impact our business. For example, changes to the way service providers conduct business and transmit data between the U.K. and the EU could require us to make changes to the way we handle customer data. We will also review the impact of any resulting changes to EU or U.K. law that could affect our operations, such as labor policies, financial planning, product manufacturing, and product distribution. Political and regulatory responses to the vote are still developing and we are in the process of assessing the impact the vote may have on our business as more information becomes available.

Moreover, local laws and customs in many countries differ significantly from or conflict with those in the United States or in other countries in which we operate. 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 U.S. 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 termination of our relationship, financial reporting problems, fines, and/or penalties for us, 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 substantial portion 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



Table of Contents

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. This could negatively affect our ability to meet our customers' pricing expectations in those markets and may result in erosion of gross margin and market share. 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.

Approximately \$125 million of the transaction consideration we received from the divestiture of our Junos Pulse product portfolio is in the form of a non-contingent seller promissory note and we may not receive the amount owed to us (including accrued interest), including in the time frame contemplated, by the buyer under the note.

In the fourth quarter of fiscal 2014, we completed the sale of our Junos Pulse product portfolio to an affiliate of Siris Capital, a private equity firm, for total consideration of \$230.7 million, of which \$105.7 million was in cash, net of a \$19.3 million working capital adjustment, and \$125.0 million was in the form of an 18-month non-contingent interest-bearing promissory note issued to the Company. On October 2, 2015, the Company and the issuer of the promissory note agreed to modify the original terms of the note to extend the maturity date from April 1, 2016 to December 31, 2018. Since approximately \$125.0 million of the transaction consideration is in the form of a non-contingent seller promissory note, there is the risk that we may not receive the amount owed to us (including accrued interest), including in the time frame contemplated, by the buyer under the note. In the event that the promissory note is not repaid on the terms we contemplate, any collection or restructuring efforts we undertake may be costly and require significant time and attention from our management and there is no guarantee that we will be able to recover the amounts owed to us in full.

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 effectively 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 defects, errors or malware or do not meet customer quality expectations, our business could be adversely affected, and we may be subject to additional costs or 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. For example, in December 2015, we disclosed that we identified unauthorized code in ScreenOS that could allow a knowledgeable attacker to gain administrative access to NetScreen devices and to decrypt VPN connections.

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. Following the identification of the ScreenOS vulnerabilities, we launched an investigation into the matter, developed patched releases for the latest versions of ScreenOS and notified customers, all of which required significant time and attention from management and our employees. 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 or indemnification. 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,

Table of Contents

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 are not available on terms acceptable to us, 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. Some of our agreements with our licensors may be terminated for convenience by them. In addition, we cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. 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.

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, 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 our 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 publicly disclose material weaknesses in our controls. Any adverse results from such evaluation may adversely affect investor perception, and our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to assess the effectiveness of our internal control over financial reporting and to disclose in our filing if such controls were unable to provide assurance that a material error would be prevented or detected in a timely manner. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design and test the system and process controls necessary to comply with these requirements. If in the future, our internal controls over financial reporting are determined to be not effective resulting in a material weakness or significant deficiency, investor perceptions regarding the reliability of our

Table of Contents

financial statements may be adversely affected which could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and financial condition.

Failure to maintain our credit ratings could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

The major credit rating agencies routinely evaluate our indebtedness. This evaluation is based on a number of factors, which include financial strength as well as transparency with rating agencies and timeliness of financial reporting. There can be no assurance that we will be able to maintain our credit ratings and failure to do so could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

We may be unable to generate the cash flow to satisfy our expenses, make anticipated capital expenditures or service our debt obligations, including the Senior Notes and the Revolving Credit Facility.

In February 2016, we issued \$350.0 million aggregate principal amount of 3.125% senior notes due 2019, which we refer to as the 2019 Notes, and \$150.0 million aggregate principal amount of 4.5% senior notes due 2024, which we refer to as the 2024 Notes. In March 2015, we issued \$300.0 million aggregate principal amount of 3.30% senior notes due 2020, which we refer to as the 2020 Notes, and \$300.0 million aggregate principal amount of 4.35% senior notes due 2025, which we refer to as the 2025 Notes. In addition, in March 2014, we issued \$350.0 million aggregate principal amount of our 2024 Notes and in March 2011, we issued \$1.0 billion aggregate principal amount of senior unsecured notes, which we refer to as the Senior Notes and together with the 2019 Notes, 2020 Notes, 2024 Notes and 2025 Notes, the Notes (see discussion in Note 9, Debt and Financing, in the Notes to Consolidated Financial Statements of this Report). As of September 30, 2016, we had \$2,133.1 million in outstanding long-term debt. In June 2014, we entered into a Credit Agreement with certain institutional lenders that provides for a five year \$500.0 million unsecured revolving credit facility, which we refer to as the Revolving Credit Facility, with an option to increase the Revolving Credit Facility, up to a maximum of \$700.0 million. The Credit Agreement will terminate in June 2019, at which point all amounts borrowed must be repaid. As of September 30, 2016, no amounts were outstanding under the Credit Agreement.

We may not be able to generate sufficient cash flow to enable us to satisfy our expenses, make anticipated capital expenditures or service our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). Our ability to pay our expenses, 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 at least the next twelve months to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). 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 Notes), repatriate off-shore cash to the U.S. at unfavorable tax rates 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.

The indentures that govern the Notes contain 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.

The Credit Agreement contains two financial covenants along with customary affirmative and negative covenants that include the following:

•maintenance of a leverage ratio no greater than 3.0x and an interest coverage ratio no less than 3.0x

covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens, merge or consolidate, dispose of all or substantially all of its assets, change their accounting or reporting policies, change their business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type.

Table of Contents

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 Notes, and the Revolving Credit Facility (if drawn upon).

Our failure to pay quarterly dividends to our stockholders or the failure to meet our commitments to return capital to our stockholders could have a material adverse effect on our stock price.

In October 2016, we announced a cash dividend of \$0.10 per share of common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016. Our ability to pay quarterly dividends or achieve our intended capital return policy will be subject to, among other things, our financial position and results of operations, available cash and cash flow, capital requirements, use of cash for acquisitions and other factors. Any failure to pay or increase future dividends as announced, reduction or discontinuation of quarterly dividends could have a material adverse effect on our stock price.

In addition, in July 2015 and October 2014, our Board of Directors authorized a \$500.0 million and a \$1.1 billion increase, respectively, to our current capital return plan. The capital return plan will be funded by a combination of onshore cash and previously issued debt. Beginning in 2017, we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Any failure to meet our commitments to return capital to our shareholders could have a material adverse effect on our stock price.

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 September 30, 2016, we had \$1,689.0 million in cash and cash equivalents and \$1,791.1 million in short- and long-term investments. We have invested these amounts primarily in asset-backed securities, certificates of deposit, commercial paper, corporate debt securities, foreign government debt securities, government-sponsored enterprise obligations, money market funds, mutual funds, publicly-traded equity securities, time deposits and U.S. government securities. Certain of these investments are subject to general credit, liquidity, market, sovereign debt, and interest rate risks. 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 material adverse effect on our liquidity, financial condition, and results of operations.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or if the Court of Chancery does not have jurisdiction, the U.S. District Court for the District of Delaware) is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of our current or former directors, officers, or other employees to us or to our stockholders; (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation, or our bylaws; (iv) any action or proceeding asserting a claim as to which Delaware General Corporation Law confers jurisdiction on the Court of

Chancery or (v) any action asserting a claim governed by the internal affairs doctrine. The exclusive forum provisions in our bylaws may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our current or former directors, officers, or other employees, which may discourage such lawsuits against us and our current or former directors, officers, and other employees. Alternatively, if a court were to find the exclusive forum provisions contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on our business.



Table of Contents

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.

71

---

Table of Contents

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

On August 9, 2016, we issued 248,700 shares of our common stock as consideration to two individuals in connection with an acquisition of all the outstanding shares of Aurion in the third quarter of 2016.

The sales of the above securities were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering and/or the private offering safe harbor provision of Rule 506 of Regulation D promulgated under the Securities Act.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides a summary of stock repurchases during the three months ended September 30, 2016 (in millions, except per share amounts):

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
July 1 - July 31, 2016	0.1	\$ 23.30	—	\$ 332.1
August 1 - August 31, 2016	4.9	\$ 23.04	4.9	\$ 219.7
September 1 - September 30, 2016 <sup>(3)</sup>	—	\$ 23.29	—	\$ 219.7
Total	5.0	\$ 23.05	4.9	

Amounts include repurchases under our stock repurchase programs 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.

Shares were repurchased under our stock repurchase program approved by the Board in February 2014, October 2014, and July 2015, which authorized us to purchase an aggregate of up to \$3.9 billion of our common stock.

<sup>(2)</sup> Future share repurchases under our capital return plan 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.

<sup>(3)</sup> Includes an insignificant number of shares repurchased associated with minimum tax withholdings.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description of Document
10.1	Aurrion, Inc. Amended and Restated 2008 Equity Incentive Plan. (incorporated herein by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 filed with the SEC on September 2, 2016)+
10.2	Form of Severance Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 20, 2016)+
10.3	Form of Change of Control Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 20, 2016)+
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 September 30, 2016, 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.

+Indicates management contract or compensatory plan, contract or arrangement.



Table of Contents

SIGNATURES

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

Juniper Networks, Inc.

November 8, 2016

By: /s/ Kenneth B. Miller

Kenneth B. Miller

Executive Vice President, Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

November 8, 2016

By: /s/ Terrance F. Spidell

Terrance F. Spidell

Vice President, Corporate Controller and Chief Accounting Officer

(Duly Authorized Officer and Principal Accounting Officer)

Table of Contents

Exhibit Index

Exhibit Number	Description of Document
10.1	Aurrion, Inc. Amended and Restated 2008 Equity Incentive Plan. (incorporated herein by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 filed with the SEC on September 2, 2016)+
10.2	Form of Severance Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 20, 2016)+
10.3	Form of Change of Control Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 20, 2016)+
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 September 30, 2016, 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.

+Indicates management contract or compensatory plan, contract or arrangement.

