JUNIPER NETWORKS INC
Form 10-K
February 26, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from__________ to____________

Commission file number 001-34501
JUNIPER NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0422528
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1194 North Mathilda Avenue Sunnyvale, California 94089	(408) 745-2000
(Address of principal executive offices)(Zip Code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.00001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $7,141,000,000 as of the end of the Registrant's second fiscal quarter (based on the closing sale price for the common stock on the New York Stock Exchange on June 29, 2012). For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. However, such treatment should not be construed as an admission that any such person is an "affiliate" of the registrant. The registrant has no non-voting common equity.

As of February 22, 2013, there were approximately 509,429,144 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive proxy statement to be filed in conjunction with the Registrant's 2013 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2012.

Juniper Networks, Inc.
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PART I

ITEM 1. Business

Overview

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

We do business in three geographic regions: Americas, Europe, Middle East, and Africa ("EMEA"), and Asia Pacific ("APAC"). Beginning in the first quarter of 2012, we aligned our organizational structure to focus on our platform and software strategy, which resulted in two reportable segments organized principally by product families: Platform Systems Division ("PSD") and Software Solutions Division ("SSD"). Our PSD segment primarily offers scalable routing and switching products that are used in service provider, enterprise, and public sector networks to control and direct network traffic between data centers, core, edge, aggregation, campus, Wide Area Networks ("WANs"), branch, and consumer and business devices. Our SSD segment offers software solutions focused on network security and network services applications for both service providers and enterprise customers. Together, our high-performance product and service offerings help our customers to convert legacy networks that provide commoditized services into more valuable assets that provide differentiation, value, and increased performance, reliability, and security to end-users. See Note 13, Segments, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K ("Report"), for financial information regarding each of our PSD and SSD segments, which is incorporated herein by reference.

During 2012, we also initiated a variety of actions to ensure we are positioned for the future. We worked to further align our resources to improve productivity and effectiveness, enabling us to deliver our roadmap for innovation and unprecedented value to customers. Our actions were carefully planned and managed to maximize efficiencies in our cost structure, while preserving the investments in innovation in our core businesses of routing, switching, and security.

During our fiscal year ended December 31, 2012, we conducted business in more than 100 countries around the world generating net revenues of $4,365.4 million and net income attributable to Juniper Networks of $186.5 million. See Item 8 of Part II of this Report for more information on our Consolidated Balance Sheets as of December 31, 2012 and 2011 and our Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flows, and Consolidated Statements of Changes in Stockholders' Equity for each of the three years ended December 31, 2012, 2011, and 2010.

We were incorporated in California in 1996 and reincorporated in Delaware in 1998. Our corporate headquarters are located in Sunnyvale, California. Our website address is www.juniper.net.

Our Strategy

Our objective and strategy is to be the leading provider of high-performance network infrastructure by transforming the experience and economics of networking. Our strategy is centered on innovation and customer value. Key elements of our strategy are described below.

Maintain and Extend Technology Leadership

We are recognized around the world as an innovation leader in networking. Our Junos OS, application-specific integrated circuit (“ASIC”) technology, and network-optimized product architecture have been key elements to establishing and maintaining our technology leadership. We believe that these elements can be leveraged for future products that we are currently developing. We intend to maintain and extend our technological leadership in the service provider and enterprise markets primarily through innovation and continued investment in research and development (“R&D”), supplemented by external partnerships, including strategic alliances and strategic acquisitions that would allow us to deliver a broad range of products and services to customers in target markets.

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Leverage Position as Supplier of High-Performance Network Infrastructure

We are a pure play in high-performance networking. From inception, we have focused on designing, developing, and building high-performance network infrastructure for demanding service provider and enterprise networking environments and have integrated purpose-built technology into a network-optimized architecture that specifically meets customer needs. We believe that many customers will deploy networking equipment from only a few vendors, and that the performance, reliability, and security of our products will provide us with a competitive advantage, which is critical to be selected as one of those vendors.

Be Strategic to Our Customers

In developing our PSD and SSD solutions, we work very closely with customers to design and build best-in-class products and solutions specifically designed to meet their complex needs. Over time, we have expanded our understanding of the escalating demands and risks facing our customers, which has enabled us to design additional capabilities into our products. We believe our close relationships with, and constant feedback from, our customers have been key elements in our design wins and rapid deployments to date. We plan to continue to work hand-in-hand with our customers to implement product enhancements, as well as to design products that meet the evolving needs of the marketplace, while enabling customers to reduce costs. We are committed to investing in R&D at a level that drives our innovation agenda, enabling us to deliver highly differentiated products and outstanding value to our customers.

Enable New Internet Protocol ("IP")-Based Services

Our platforms enable network operators to quickly build and secure networks cost-effectively and deploy new differentiated services to drive new sources of revenue more efficiently than legacy network products. We believe that the secure delivery of IP-based services and applications, including web hosting, outsourced Internet and intranet services, outsourced enterprise applications, and voice-over IP, will continue to grow and benefit from cost efficiencies enabled by our high-performance network infrastructure offerings. By enabling these new IP-based services, we have significantly broadened our service provider business over the last several years, while also significantly expanding our presence in the enterprise market.

Establish and Develop Industry Partnerships

Our customers have diverse requirements. While our products meet certain requirements of our customers, our products are not intended to satisfy all of their requirements. Therefore, we believe that it is important that we attract and build relationships with other industry leaders with diverse technologies and services that extend the value of the network to our customers. These partnerships ensure that our customers have access to those technologies and services, whether through technology integration, joint development, resale, or other collaboration, in order to better support a broader set of our customers' requirements. In addition, we believe an open network infrastructure that invites partner innovation provides customers with greater choice and control in meeting their evolving business requirements, while enabling them to reduce costs.

Markets and Customers

We sell our high-performance network products and service offerings through direct sales and through distributors, value-added resellers ("VARS"), and original equipment manufacturer (“OEM”) partners to end-users in the following markets:

Service Providers

Service providers include wireline, wireless, and cable operators, as well as major Internet content and application providers. We support most major service provider networks in the world and our high-performance network infrastructure offerings are designed and built for the performance, reliability, and security that service providers demand. We believe our networking infrastructure offerings benefit our service provider customers by:

- Reducing capital and operational costs by running multiple services over the same network using our high density and highly reliable platforms;
- Creating new or additional revenue opportunities by enabling new services to be offered to new market segments based on our product capabilities;
- Increasing customer satisfaction, while lowering costs, by enabling consumers to self-select automatically provisioned service packages that provide the quality, speed, and pricing they desire; and

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- Providing increased asset longevity and higher return on investment as our customers' networks can scale to multi-terabit rates based on the capabilities of our platforms.

While many of these service providers have historically been categorized separately as wireline, wireless, or cable operators, in recent years, we have seen increased convergence of these different types of service providers through acquisitions, mergers, and partnerships. We believe these strategic developments are made technically possible as operators invest in the build-out of next generation networks capable of supporting voice, video, and data traffic on the same IP-based network. This convergence relies on IP-based traffic processing and creates the opportunity for multi-service networks and offers service providers significant new revenue opportunities.

We believe that there are several other trends affecting service providers for which we are well positioned to deliver products and solutions. These trends include: significant growth in IP traffic on service provider networks because of peer-to-peer interaction; broadband usage; video; an increasing reliance on the network as a mission critical business tool in the strategies of our IP customers and of their enterprise customers; the advent of data center "clouds" that concentrate business applications in large, IP network connected facilities; and growth in mobile traffic as a result of the increase in mobile device usage including notebooks, netbooks, smartphones, and tablets.

The IP infrastructure market for service providers includes: products and technology at the network core; the network edge to enable access; the aggregation layer; security to protect from the inside out and the outside in; the application awareness and intelligence to optimize the network to meet business and user needs; and the management, service awareness, and control of the entire infrastructure.

Enterprise

Our high-performance network infrastructure offerings are designed to meet the performance, reliability, and security requirements of the world's most demanding businesses. Enterprises and public sector organizations, such as governments and research and education institutions, that view their networks as critical to their success are able to deploy our solutions as a powerful component in delivering the advanced network capabilities needed for their leading-edge applications. In addition, our solutions:

- Assist in the consolidation and delivery of existing services and applications;

- Accelerate the deployment of new services and applications;

- Offer integrated security to assist in the protection and recovery of services and applications; and

- Offer operational improvements that enable cost reductions, including lower administrative, training, customer care, and labor costs.

As with the service provider market, innovation continues to be a critical component in our strategy for the enterprise market. High-performance enterprises require networks that are global, distributed, and always available. Network equipment vendors serving these enterprises need to demonstrate performance, reliability, and security with best-in-class open solutions for maximum flexibility. We offer enterprise solutions and services for data centers, branch and campus applications, distributed and extended enterprises, and consumer and business devices.

As customers increasingly view the network as critical to their success, we believe that customers will increasingly demand fast, reliable, and secure access to services and applications over a single IP-based network. This is partly illustrated by the success of our SRX Series Services Gateways that consolidate switching, routing, and security services in a single device, Integrated Security Gateway (“ISG”) products that combine firewall/virtual private network

(“VPN”) and intrusion detection and prevention (“IDP”) solutions in a single platform, and Secure Services Gateway (“SSG”) platforms that provide a mix of high-performance security with Local Area Network/Wide Area Network (“LAN”)/("WAN") connectivity for regional and branch office deployments. We will continue to invest to develop these and other converged technologies and solutions.

Customers with Ten Percent of Net Revenues or Greater

In 2012 and 2010, Verizon Communications, Inc. accounted for 10.3% and 10.4% of net revenues, respectively. In 2011, no single customer accounted for 10% or more of net revenues.

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Our Products and Technology

Early in our history, we developed, marketed, and sold the first commercially available purpose-built IP backbone router optimized for the specific high-performance requirements of service providers. As the need for core bandwidth continued to increase, the need for service rich platforms at the edge of the network was created.

In the last six years, we have expanded our portfolio to address domains in the network: the core, the edge, access and aggregation, data centers, WANs, campus and branch, and consumer and business devices. We see every domain in the network as an opportunity to provide customers with business value, business efficiency, and new services and applications. We have systematically focused on how we innovate in silicon, systems, and software to provide a range of solutions in high-performance networking that can solve unique problems for customers.

In each of the past three fiscal years, routing, switching, security, and services each accounted for more than 10% of our consolidated net revenues. The following is an overview of our major product families within each of our segments:

PSD Products

- MX Series: The MX Series is a family of high-performance, enterprise class and service provider Ethernet routers that functions as a Universal Edge platform capable of supporting business, mobile, and residential services in even the fastest-growing networks and markets. Powerful switching and security features give the MX Series 3D Universal Edge Routers unmatched flexibility, versatility, and reliability to support advanced services and applications at the edge of the network. Using our Junos OS and groundbreaking Trio chipset, the MX platforms provide the carrier-class performance, scale, and reliability to enable service providers and enterprises to support large-scale Ethernet deployments.

- T Series: The T Series routers provide the leading features and multi-terabit scale that service providers need to handle massive growth in core bandwidth requirements. These features include multi-protocol label switching ("MPLS") Differentiated Services (DiffServ-TE), point-to-multipoint label-switched paths (P2MP LSPs), nonstop routing, unified in-service software upgrades (unified ISSUs), hierarchical MPLS, to name a few. Introduced in 2002, the T series remains the industry's best investment protection story with the introduction of the T4000 in 2012.

- PTX Series: The PTX Series Packet Transport Switches are designed for the converged supercore. The system is the first supercore packet system in the industry, and delivers powerful capabilities based on innovative Express silicon and a forwarding architecture that is focused on optimizing MPLS and Ethernet. PTX Series Packet Transport Switches deliver several critical core functionalities and capabilities, including game changing density and scalability, cost optimization, high availability, and network simplification. They can readily adapt to today's rapidly changing traffic patterns for video, mobility, and cloud-based services.

- ACX Series: The ACX Series Universal Access Routers cost-effectively address current operator challenges to rapidly deploy new high-bandwidth services. With industry-leading performance of up to 60Gbps and support for 10GbE interfaces, the ACX Series is well positioned to address the growing bandwidth needs of service providers. The platforms deliver the necessary scale and performance needed to support multi-generation services.

- EX Series: The EX Series Ethernet switches address the access, aggregation, and core layer switching requirements of micro branch, branch office, and campus and data center environments, providing a foundation for the fast, secure, and reliable delivery of applications able to support strategic business processes. EX Series enterprise Ethernet switches-including the EX2200, EX2500, EX3200, EX3300, EX4200, EX4500, EX6200 and EX8200-are designed to deliver operational efficiency, business continuity, and agility, enabling customers to invest in innovative business initiatives that increase revenue and help them gain a competitive advantage.

- Wireless Local Area Network ("WLAN") Products: The WLAN product family includes wireless controllers, access points, and management tools that deliver wireless LAN and WAN solutions for enterprises of all sizes and types. They are an important component in our campus strategy and are critical to Juniper's differentiation of delivering end-to-end wired and wireless switching infrastructure. The WLAN product family provides the highest levels of reliability, performance, security, and management for today's most demanding mobile applications.

- QFabric Products: The QFabric family of products offers a revolutionary approach that delivers dramatic improvements in data center performance, operating costs, and business agility for enterprises, high-performance computing systems, and cloud providers. The QFabric family, including the QFabric Systems (QFX3000-G and

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QFX3000-M), QFX3500 Switch, and QFX3600 Switch, implements a single-tier network in the data center, enabling improvements in speed, scale, and efficiency by removing legacy barriers and improving business agility.

- SRX Series Services Gateways for the Branch: The SRX Series Services Gateways are high-performance security, routing and network solutions for enterprise and service providers. SRX Series gateways pack high port-density, advanced security, and flexible connectivity, into a single, easily managed platform that supports fast, secure, and highly-available, data center and branch operations. The cost effectiveness and the versatility of the SRX Series platforms results in some of the best price-performance ratios in the industry. Hardware and OS consolidation, operational flexibility and unmatched performance simplify deployment and operations delivering an attractive low TCO.

SSD Products

- SRX Series Services Gateways for the Data Center: Our high-end SRX Series platforms deliver market-leading performance, scalability, and service integration in a chassis-based form factor ideally suited for medium to large enterprise and service provider data centers and large campus environments where scalability, high performance, and concurrent services, are essential. SRX Series of dynamic services gateways, running our Junos software, provides firewall/VPN performance and scalability. The series is designed to meet network and security requirements for data center consolidation, rapid managed services deployments, and aggregation of security services.

- SSG Series, ISG Series, and NetScreen Series: Our firewall and VPN systems and appliances are designed to provide integrated firewall, VPN, and denial of service protection capabilities for both enterprise environments and service provider network infrastructures. These products range from our SSG Series, which combines LAN/WAN routing capabilities with unified threat management features such as antivirus, anti-spam, and web filtering technologies, to our ISG and NetScreen Series firewall and VPN systems, which are designed to deliver high-performance security in medium/large enterprises, carrier networks, and data centers.

- Secure Access Appliances: Our Junos Pulse, Junos Pulse Mobile Security Suite, and SA Series SSL VPN appliances, designed for use in companies of all sizes, are used to provide secure access to corporate resources for remote and mobile users from any web-enabled device, regardless of location.

- MobileNext: Our MobileNext solution is an open mobile core, architected to meet the needs of a smartphone-centric world that includes greatly increased performance with services enabled, integrated security, and an open architecture to increase service velocity. The elements of the MobileNext solution include MobileNext Broadband Gateway, MobileNext Control Gateway, and MobileNext Policy Manager.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II of this Report, for an analysis of net product revenues by segment.

Platform Strategy

In addition to our major product families, our extended software portfolio, known as Junos Platform, is a key technology element in our strategy to be the leader in high-performance networking. The Junos Platform enables our customers to expand network software into the application space, deploy software clients to control delivery, and accelerate the pace of innovation with an ecosystem of developers. The Junos Platform includes the following products:

- Junos OS: At the heart of the Junos Platform is Junos OS. We believe Junos OS is fundamentally superior to other network operating systems in not only its design, but also in its development capabilities. The advantages of Junos OS include:

One modular operating system with single source base of code and a single, consistent implementation for each control plane feature;

One software release train extended through a highly disciplined and firmly scheduled development process; and

One common modular software architecture that scales across all Junos-based platforms.

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Junos OS is designed to maintain continuous systems and improve the availability, performance, and security of business applications running across the network. Junos OS helps to automate network operations by providing a single consistent implementation of features across the network in a single release train that seeks to minimize the complexity, cost, and risk associated with implementing network features and upgrades. This operational efficiency allows network administrators more time to innovate and deliver new revenue-generating applications, helping to advance the economics of high-performance networking.

The security and stability of Junos OS, combined with its modular architecture and single source code base, provides a foundation for delivering performance, reliability, security, and scale at a lower total cost of ownership than multiple operating code base environments. With an increasing number of our platforms able to leverage Junos OS, including routing, switching, and security products, we believe Junos OS provides us a competitive advantage over other major network equipment vendors.

- Junos Space: Our Junos Space network management platform offers an open, Service-Oriented Architecture-based ("SOA") platform for creating organic and third-party network management applications to drive network innovation. Junos Space includes applications for network infrastructure management and automation that help customers reduce operational cost and complexity and scale services. These include Network Activate, Ethernet Design, Route Insight, Security Design, Virtual Control, Service Now, and Service Insight.

Major Product Development Projects

We continue to invest in innovation and strengthening our product portfolio, which resulted in new product offerings during 2012, including a smaller version of our QFabric solutions, the latest QFX3000-M QFabric System, T4000 Core Routers, and PTX Series Packet Transport switches. Additionally, we experienced new customer wins contributing to the growth in the EX Series, MX Series, and SRX Series. We launched the new ACX Series router with support for both Ethernet access/aggregation and MPLS, which extends network intelligence closer to the subscriber and features an open, standards-based management system with software development kit ("SDK")-enabled programmability to enable rapid third-party innovation. We also announced new products and features in our Simply Connected portfolio, including SRX Series Services Gateways and WLA Series Wireless LAN Access Points, which simplify and secure mobile device access to enterprise networks. Furthermore, we acquired Mykonos Web Security Software, in February 2012, to complement our network security applications portfolio.

Additionally, we announced innovative products to enable service providers to rapidly deliver and expand new consumer and business services. These products include our MX2020 and MX2010 3D Universal Edge Routers and new JunosV App Engine, which enable service providers to transform the network edge into a platform for rapid service deployment. We also launched the Junos Content Encore with MX Application Services Modular Line Card, which enables the delivery of premium content services over broadband connections across multiple device types. Furthermore, we announced a technology partnership with Riverbed Technology, Inc. ("Riverbed") that provides us with new capabilities for application delivery control, in exchange for Juniper providing WAN acceleration technology to Riverbed, along with promoting Riverbed as its WAN optimization provider of choice going forward.

Customer Service

In addition to our PSD and SSD products, we offer support, professional, and educational services. We deliver these services directly to our channel partners and to end-users and utilize a multi-tiered support model, leveraging the capabilities of our partners, and third-party organizations, as appropriate.

We also train our channel partners in the delivery of support, professional, and educational services to ensure these services are locally delivered.

As of December 31, 2012, we employed 1,301 people in our worldwide customer service and support organization. We believe that a broad range of support services is essential to the successful customer deployment and ongoing support of our products, and we have hired support engineers with proven network experience to provide those services.

Manufacturing and Operations

As of December 31, 2012, we employed 318 people in worldwide manufacturing and operations who primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality.

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As of December 31, 2012, we have subcontracted the majority of our manufacturing activity with Celestica Incorporated, Flextronics International LTD, Plexus Corporation ("Plexus"), and Accton Technology. During the fourth quarter of 2012, we confirmed an initiative to reduce the number of our contract manufacturers. In this regard, we confirmed the disengagement of Plexus as a contract manufacturer, which we expect to complete in 2013.

Our manufacturing is primarily conducted through contract manufacturers in the United States ("U.S."), China, Malaysia, Mexico, and Taiwan. Our contract manufacturers in all locations are responsible for all phases of manufacturing from prototypes to full production and assist with activities such as material procurement, final assembly, test, control, shipment to our customers, and repairs. Together with our contract manufacturers, we design, specify, and monitor the tests that are required to meet internal and external quality standards. These arrangements provide us with the following benefits:

- We can quickly deliver products to customers with turnkey manufacturing and drop-shipment capabilities;
- We gain economies of scale by leveraging our buying power with our contract manufacturers when we purchase large quantities of components;
- We operate with a minimum amount of dedicated space for manufacturing operations; and
- We can reduce our costs by reducing what would normally be fixed overhead expenses.

Our contract manufacturers build our products based on our rolling product demand forecasts. Each contract manufacturer procures components necessary to assemble the products in our forecast and tests the products according to our specifications. Products are then shipped to our distributors, VARs, or end-users. Generally, we do not own the components, and title to the products transfers from the contract manufacturers to us and immediately to our customers upon delivery at a designated shipment location. If the components remain unused or the products remain unsold for specified period, we may incur carrying charges or obsolete material charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders.

Although we have contracts with our contract manufacturers, those contracts merely set forth a framework within which the contract manufacturer may accept purchase orders from us. The contracts do not require them to manufacture our products on a long-term basis.

We also purchase and hold inventory for strategic reasons and to mitigate the risk of shortages of certain critical component supplies. The majority of our inventory is production components. As a result, we may incur additional holding costs and obsolescence charges, particularly in light of current macroeconomic conditions and the resulting uncertainties in future product demand.

Our ASICs are manufactured primarily by sole or limited sources, such as International Business Machines Corporation (“IBM”), each of which is responsible for all aspects of ASICs production using our proprietary designs.

By working collaboratively with our suppliers, we have the opportunity to promote socially responsible business practices beyond our company and into our worldwide supply chain. To this end, we have adopted a supplier code of conduct and promote compliance with such code of conduct to our suppliers. One element of our supplier code of conduct is adoption and compliance with the Electronic Industry Code of Conduct (“EICC”). The EICC outlines standards to promote ethical business practices, eliminate human trafficking, and ensure that working conditions in the electronics industry supply chain are safe, workers are treated with respect and dignity, and manufacturing processes are environmentally responsible.

Research and Development

We have assembled a team of skilled engineers with extensive experience in the fields of high-end computing, network system design, ASIC design, security, routing protocols, software applications and platforms, and embedded operating systems. As of December 31, 2012, we employed 4,081 people in our worldwide R&D organization.

We believe that strong product development capabilities are essential to our strategy of enhancing our core technology, developing additional applications, integrating that technology, and maintaining the competitiveness and innovation of our product and service offerings. In our PSD and SSD products, we are leveraging our software ASIC and systems technology, developing additional network interfaces targeted to our customers' applications, and continuing to develop technology to support the anticipated growth in IP network requirements. We continue to expand the functionality of our products to improve performance reliability and scalability, and to provide an enhanced user interface.

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Our R&D process is driven by the availability of new technology, market demand, and customer feedback. We have invested significant time and resources in creating a structured process for all product development projects. Following an assessment of market demand, our R&D team develops a full set of comprehensive functional product specifications based on inputs from the product management and sales organizations. This process is designed to provide a framework for defining and addressing the steps, tasks, and activities required to bring product concepts and development projects to market. Expenditures for R&D were $1,101.6 million, $1,026.8 million, and $917.9 million in 2012, 2011, and 2010, respectively.

Sales and Marketing

As of December 31, 2012, we employed 2,680 people in our worldwide sales and marketing organization. These sales and marketing employees operate in different locations around the world in support of our customers.

Our sales organization, with its structure of sales professionals, system engineers, and marketing and channel teams, is generally split between service provider and enterprise customers. Within each team, sales team members serve the following three geographic regions: (i) Americas (including United States, Canada, Mexico, Caribbean and Central and South America), (ii) EMEA, and (iii) APAC. Within each region, there are regional and country teams, as well as major account teams, to ensure we operate close to our customers.
See Note 13, Segments, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, for information concerning our revenues by geographic regions and by significant customers, which is incorporated herein by reference. Our international operations subject us to certain risks and uncertainties. See Item 1A of Part I, “Risk Factors,” for more information.

Our sales teams operate in their respective regions and generally either engage customers directly or manage customer opportunities through our distribution and reseller relationships or channels as described below.

In the United States and Canada, we sell to several service providers directly and sell to other service providers and enterprise customers primarily through distributors and resellers. Almost all of our sales outside the United States and Canada are made through our channel partners.

Direct Sales Structure

Our sales team engages with end-user customers with which we have direct relationships. The terms and conditions of these arrangements are governed either by customer purchase orders and our acknowledgment of those orders or by purchase contracts. The direct contracts with these customers set forth only general terms of sale and generally do not require customers to purchase specified quantities of our products. We directly receive and process customer purchase orders.

Channel Sales Structure

A critical part of our sales and marketing efforts are our channel partners through which we conduct the majority of our sales. We employ various channel partners, including but not limited to:

- A global network of strategic distributor relationships, as well as region-specific or country-specific distributors who in turn sell to local VARs who sell to end-user customers. Our distribution channel partners sell our SSD product lines in addition to the majority of our PSD product lines, including infrastructure products that are often purchased by our enterprise customers. These distributors tend to be focused on particular regions or countries within regions. For example, we have substantial distribution relationships with Ingram Micro in the Americas and Hitachi in Japan. Our agreements with these distributors are generally non-exclusive, limited by region, and provide product discounts and other ordinary terms of sale. These agreements do not require our distributors to purchase specified quantities of our products.

- VARs and Direct value-added resellers ("DVARs"), including our strategic worldwide resellers referenced below, resell our products to end-users around the world. These channel partners either buy our products and services through distributors (VARs), or directly from us and have expertise in designing, selling, and deploying complex networking solutions in their respective markets. Our agreements with these channel partners are generally non-exclusive, limited by region, and provide product discounts and other ordinary terms of sale. These agreements do not require these channel partners to purchase specified quantities of our products. Increasingly, our service provider customers also resell our products to their customers or purchase our products for the purpose of providing managed services to their customers.

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- Strategic worldwide reseller relationships with Nokia Siemens Networks B.V. ("NSN"), Ericsson Telecom A.B. (“Ericsson”), and IBM. These companies each offer services and products that complement our own product offerings and act as a reseller, and in some instances integration partners for our products. Our arrangements with these partners allow them to resell our products on a worldwide, non-exclusive basis, provide for product discounts, and specify other general terms of sale. These agreements do not require these partners to purchase specified quantities of our products.

We have a “direct touch” sales team that works directly with channel partners on key accounts in order to maintain a relationship with certain strategic end-user customers while at the same time supporting the ultimate fulfillment of product through our channel partners.

Backlog

Our sales are made primarily pursuant to purchase orders under framework agreements with our customers. At any given time, we have backlog orders for products that have not shipped. Because customers may cancel purchase orders or change delivery schedules without significant penalty, we believe that our backlog at any given date may not be a reliable indicator of future operating results. As of December 31, 2012 and 2011, our total product backlog was approximately $410.5 million and $300.7 million, respectively. Our product backlog consists of confirmed orders for products scheduled to be shipped to customers, generally within the next six months, and excludes orders from distributors as we recognize product revenue on sales made through distributors upon sell-through to end-users, certain future revenue adjustments for items such as product revenue deferrals, sales return reserves, service revenue allocations, and early payment discounts.

Seasonality

We, as do many companies in our industry experience seasonal fluctuations in customer spending patterns, particularly in the first and third quarters. Historically, we have experienced stronger customer demand in the fourth quarter. This historical pattern should not be considered a reliable indicator of our future net revenues or financial performance.

Competition

PSD Business

In the network infrastructure business, Cisco Systems, Inc. ("Cisco") has historically been the dominant player in the market. However, our principal competitors also include Alcatel-Lucent, Brocade Communications Systems, Inc. ("Brocade"), Extreme Networks, Inc. ("Extreme Networks"), Hewlett Packard Company ("HP"), and Huawei Technologies Co., Ltd. ("Huawei").

Many of our current and potential competitors, such as Cisco, Alcatel-Lucent, HP, and Huawei bundle their products with other networking products in a manner that may discourage customers from purchasing our products. In addition, consolidation among competitors, or the acquisition of our partners and resellers by competitors, can increase the competitive pressure faced by us due to their increased size and breadth of their product portfolios. Many of our current and potential competitors have greater name recognition and more extensive customer bases that they may leverage to compete more effectively. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share, negatively affecting our operating results.

SSD Business

In the market for SSD products, Cisco generally is our primary competitor with its broad range of products. In addition, there are a number of other competitors for each of the product lines within SSD, including Check Point Software Technologies, Ltd. ("Check Point"), F5 Networks, Inc. ("F5 Networks"), Fortinet, Inc. ("Fortinet"), and Palo Alto Networks, Inc. ("Palo Alto Networks"). These additional competitors tend to be focused on single product line solutions and, therefore, may be considered specialized compared to our broader product line. In addition, a number of public and private companies have announced plans for new products to address the same needs that our products address. We believe that our ability to compete with Cisco and others depends upon our ability to demonstrate that our products are superior in meeting the needs of our current and potential customers.

For both product groups, we expect that over time, large companies with significant resources, technical expertise, market experience, customer relationships, and broad product lines, such as Cisco, Alcatel-Lucent, and Huawei, will introduce new products designed to compete more effectively in the market. There are also several other companies that claim to have products with greater capabilities than our products. There continues to be consolidation in this industry, with smaller companies being acquired by larger, established suppliers of network infrastructure products. We believe this trend is likely to continue.

As a result, we expect to face increased competition in the future from larger companies with significantly more resources than we have. Although we believe that our technology and the purpose-built features of our products make them unique and will enable us to compete effectively with these companies, we cannot guarantee that we will be successful.

Environment

We are subject to regulations that have been adopted with respect to environmental matters, such as the Waste Electrical and Electronic Equipment ("WEEE"), Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS"), and Registration, Evaluation, Authorization, and Restriction of Chemicals ("REACH") regulations adopted by the European Union and China. In addition, we participate in the Carbon Disclosure Project ("CDP"). CDP is a global standardized mechanism by which companies report their greenhouse gas emissions to institutional investors. It hosts one of the largest registries of corporate greenhouse gas data in the world at www.cdproject.net. We continue to invest in the infrastructure and systems required to be able to inventory and measure our carbon footprint on a global basis. We believe we have made significant strides in improving our energy efficiency around the world.

To date, compliance with federal, state, local, and foreign laws enacted for the protection of the environment has had no material effect on our capital expenditures, earnings, or competitive position.

In addition, we are committed to the environment by our effort in improving the energy efficiency of key elements in our high-performance network product offerings. In 2012, we launched a set of carrier-class MPLS switches, the PTX5000 series. In addition to filling the capacity and density requirement for Internet core growth, PTX5000 also features record energy efficiency of 1.5W per Gigabit of throughput. The environment will remain a focus area across multiple aspects of our business.

Intellectual Property

Our success and ability to compete are substantially dependent upon our internally developed technology and expertise.

While we rely on patent, copyright, trade secret, and trademark law to protect our technology, we also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements, and reliable product maintenance are essential to establishing and maintaining a technology leadership position. There can be no assurance that others will not develop technologies that are similar or superior to our technology.

In addition, we integrate licensed third-party technology into certain of our products. From time to time, we license additional technology from third parties to develop new products or product enhancements. There can be no assurance that third-party licenses will be available or continue to be available to us on commercially reasonable terms. 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 to obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could harm our business, financial condition, and results of operations.

Our success will depend in part upon our ability to obtain necessary intellectual property rights and protect our intellectual property rights. We cannot be certain that patents will be issued on the patent applications that we have filed, that we will be able to obtain the necessary intellectual property rights, or that other parties will not contest our intellectual property rights.

As of December 31, 2012, our worldwide patent portfolio included over 1,700 patents. Patents generally have a term of twenty years from filing. As our patent portfolio has been built over time, the remaining terms on the individual patents vary.

Employees

As of December 31, 2012, we had 9,234 full-time employees. We have not experienced any work stoppages, and we consider our relations with our employees to be good. Competition for qualified personnel in our industry is intense. We believe that our future success depends in part on our continued ability to hire, motivate, and retain qualified personnel. We believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

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Our future performance depends significantly upon the continued service of our key technical, sales, and senior management personnel, none of whom are bound by an employment agreement requiring service for any defined period of time. The loss of one or more of our key employees could have a material adverse effect on our business, financial condition, and results of operations. Our future successes also depend on our continuing ability to attract, train, and retain highly qualified technical, sales, and managerial personnel. Competition for such key personnel is intense, and in order to attract and retain these personnel, we must provide a competitive compensation package, including cash and share-based compensation. Our share-based incentive awards include stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), and performance share awards ("PSAs"), some of which contain conditions relating to our long-term financial performance that make the future value of those awards uncertain. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate key personnel could be weakened. There can be no assurance that we can retain our key personnel in the future.

Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers as of the filing of this Report:

Name	Age	Position
Kevin R. Johnson	52	Chief Executive Officer
Pradeep Sindhu	60	Chief Technical Officer and Vice Chairman of the Board
Robyn M. Denholm	49	Executive Vice President and Chief Financial Officer
Gerri Elliott	56	Executive Vice President and Chief Sales, Services and Support Officer
Mitchell Gaynor	53	Executive Vice President, General Counsel and Secretary
Robert Muglia	53	Executive Vice President, Software Solutions Division
Rami Rahim	42	Executive Vice President, Platform Systems Division
Gene Zamiska	51	Vice President, Corporate Finance and Chief Accounting Officer

KEVIN R. JOHNSON joined Juniper in September 2008 as Chief Executive Officer ("CEO") and a member of our Board. Prior to Juniper, Mr. Johnson was at Microsoft Corporation ("Microsoft"), a worldwide provider of software, services, and solutions, where he had served as President, Platforms and Services Division since January 2007. He had been Co-President of the Platforms and Services Division since September 2005. Prior to that role, he held the position of Microsoft's Group Vice President, Worldwide Sales, Marketing and Services since March 2003. Before that position, Mr. Johnson had been Senior Vice President, Microsoft Americas since February 2002 and Senior Vice President, U.S. Sales, Marketing, and Services since August 2000. Before joining Microsoft in 1992, Mr. Johnson worked in the systems integration and consulting business of IBM, a global systems integration and consulting corporation and started his career as a software developer. Mr. Johnson also serves on the board of directors of Starbucks Corporation, a worldwide coffee retailer.

PRADEEP SINDHU founded Juniper in February 1996 and served as CEO and Chairman of the Board until September 1996. Since then, Dr. Sindhu has served as Vice Chairman of the Board and Chief Technical Officer of Juniper. From September 1984 to February 1991, Dr. Sindhu worked as a Member of the Research Staff, from March 1987 to February 1996, as the Principal Scientist, and from February 1994 to February 1996, as Distinguished Engineer at the Computer Science Lab at Xerox Corporation, Palo Alto Research Center, a technology research center. Dr. Sindhu served as a member of the board of directors of Infinera Corporation, a provider of optical networking equipment, from September 2001 to May 2008.

ROBYN M. DENHOLM joined Juniper in August 2007 as Executive Vice President and Chief Financial Officer. Prior to joining Juniper, Ms. Denholm was at Sun Microsystems, Inc. ("Sun") from January 1996 to August 2007, where she served in executive assignments that included Senior Vice President of Corporate Strategic Planning, Senior Vice President of Finance, Vice President and Corporate Controller (Chief Accounting Officer), Vice President of Finance, Director of Service Division, and Shared Financial Services APAC and Controller, Australia/New Zealand. Prior to joining Sun, Ms. Denholm served at Toyota Motor Corporation Australia for seven years and at Arthur Andersen & Company for five years in various finance assignments. Ms. Denholm is a Fellow of the Institute of Chartered Accountants of Australia and holds a bachelor's degree in economics from the University of Sydney and a master's degree in commerce from the University of New South Wales. Ms. Denholm also serves on the board of directors of Echelon Corporation, an international control networks company.

GERRI ELLIOTT joined Juniper in July 2009 and currently serves as our Executive Vice President and Chief Sales, Services and Support Officer. Before joining Juniper, Ms. Elliott was at Microsoft, where she was Corporate Vice President, Worldwide Public Sector Organization from July 2004 to December 2008. Prior to Microsoft, Ms. Elliott spent 22 years at IBM, where she held several senior executive positions in the U.S. and internationally. Ms. Elliott holds a bachelor's degree in international politics from New York University.

MITCHELL GAYNOR joined Juniper in February 2004 as Vice President, General Counsel, and Secretary and served as Senior Vice President, General Counsel and Secretary from February 2008 to February 2011 and is currently our Executive Vice President, General Counsel and Secretary. Prior to joining Juniper, Mr. Gaynor was Vice President, General Counsel, and Secretary of Portal Software, Inc., a provider of account management software that was subsequently acquired by Oracle Corporation ("Oracle"), and Sybase, Inc., an enterprise and mobile software company that was subsequently acquired by SAP AG. In private practice, he was an associate with the law firm of Brobeck, Phleger & Harrison. Mr. Gaynor holds a law degree from University of California's Hastings College of the Law and a bachelor's degree in history from the University of California, Berkeley.

ROBERT MUGLIA joined Juniper in October 2011 as Executive Vice President, Software Solutions Division. Before joining Juniper, Mr. Muglia was at Microsoft from January 1988 through September 2011, where he served in various leadership positions across all of Microsoft's business groups, including Developer, Office, Mobile Devices, Windows NT and Online Services. Most recently, Mr. Muglia served as President of Microsoft's Server and Tools Business ("STB"), where he was responsible for infrastructure software, developer tools and cloud platforms. Mr. Muglia holds a bachelor's degree in computer and communication science from the University of Michigan.

RAMI RAHIM joined Juniper in January 1997 and in October 2012 became Executive Vice President of our Platform Systems Division, responsible for driving strategy, development, and business growth for Juniper's entire portfolio of routing, switching, branch, and WLAN products, as well as for the ongoing evolution of our silicon technology and the Junos operating system. Prior to his current position, Mr. Rahim served Juniper in a number of roles, including Senior Vice President and GM of the Edge and Aggregation Business Unit and Vice President of Product Management for EABU. Prior to that, Mr. Rahim spent the majority of his time at Juniper in the development organization where he helped with the architecture, design and implementation of many Juniper core, edge, and carrier Ethernet products. Mr. Rahim holds a Bachelor of Science degree in electrical engineering from the University of Toronto and a Master of Science degree in electrical engineering from Stanford University.

GENE ZAMISKA joined Juniper in December 2007 and currently serves as our Vice President of Corporate Finance and Chief Accounting Officer, for which he was appointed in February 2009. Before joining Juniper, Mr. Zamiska was at HP from February 1989 through November 2007, where he served in various roles in the finance department, most recently serving as Senior Director of Finance - Controller for HP's consulting and integration division and HP's Senior Director of Finance - Assistant Corporate Controller. Prior to HP, Mr. Zamiska was at Arthur Andersen & Company where he served in various roles in the audit and assurance practice. Mr. Zamiska is a Certified Public Accountant (inactive) and holds a bachelor's degree in business-accounting from the University of Illinois, Champaign-Urbana.

Available Information

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, with the U.S. Securities and Exchange Commission (the “SEC”) electronically. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including Juniper Networks that file electronically with the SEC. The address of that website is http://www.sec.gov.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports on our website at http://www.juniper.net, by contacting the Investor Relations Department at our corporate offices by calling 1-408-936-5396, or by sending an e-mail message to investor-relations@juniper.net. Such reports and other information are available on our website when they are available on the SEC website. Our Corporate Governance Standards, the charters of our Audit Committee, Compensation Committee, Stock Committee, and Nominating and Corporate Governance Committee, as well as our Worldwide Code of Business Conduct and Ethics are also available on our website. Information on our website is not a part of this Report.

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Item 1A. Risk Factors

Factors That May Affect Future Results

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

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

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

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

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

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

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

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

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

A substantial majority of our net revenues depend on sales to a limited number of customers and distribution partners. For example, Verizon accounted for greater than 10% of our net revenues in 2010 and 2012. Changes in the business requirements, vendor selection, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers could significantly decrease sales to such customers or could lead to delays or cancellations of planned purchases of our products or services, which increases the risk of quarterly fluctuations in our revenues and operating results. Any of these factors could adversely affect our business, financial condition, and results of operations.

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

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

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

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

Competition is intense in the markets that we address. The PSD market has historically been dominated by Cisco, with competition coming from other companies such as Alcatel-Lucent, Brocade, Extreme Networks, Hewlett Packard Company, and Huawei. In the SSD market, we face intense competition from a broader group of companies such as Check Point, Cisco, F5 Networks, Palo Alto Networks, and Fortinet. Further, a number of other small public and private companies have products or have announced plans for new products to address the same challenges and markets that our products address.

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

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

We expect our product gross margins to vary from quarter-to-quarter, and the gross margins we have achieved in recent years may not be sustainable and may be adversely affected in the future by numerous factors, including customer, product and geographic mix shifts, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, increases in inventory carrying costs, excess product component or obsolescence charges from our contract

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manufacturers, increased costs due to changes in component pricing or charges incurred due to component holding periods if we do not accurately forecast product demand, warranty related issues, or our introduction of new products or entry into new markets with different pricing and cost structures. For example, in the third quarter of fiscal 2012, our margins declined as a result of an inventory charge resulting from inventory we held in excess of forecasted demand. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

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

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

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

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

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

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

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added and other reseller and distribution partners, including our worldwide strategic partners such as Ericsson, IBM, and NSN. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell our competitors' products, and some of which sell their own products that compete with our products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our value-added resellers or distributors could materially reduce our revenues. For example, in 2006, one of our largest resellers, Lucent, was acquired by Alcatel, a competitor of ours. As a result of the merger, Lucent became a competitor, their resale of our products declined, and we ultimately terminated our reseller agreement with Lucent. Our competitors may in some cases be effective in leveraging their market share positions or in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to develop and maintain relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, or if these partners

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are not successful in their sales efforts, sales of our products may decrease, and our business, financial condition, and results of operations would suffer.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From time to time, we receive preliminary notices of deficiency or notices of proposed adjustments from the IRS claiming that we owe additional taxes, plus interest and possible penalties. For example, we received a preliminary notice of deficiency in 2011 and one in 2009 for prior tax years based on transfer pricing transactions related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. As a result of the preliminary notices of deficiency received in 2011 and 2009, the incremental tax liability would be approximately $92.0 million and $807.0 million excluding interest and penalties, respectively. We believe the IRS' position with regard to these matters is inconsistent with applicable tax laws, judicial precedent and existing Treasury regulations, and that our previously reported income tax provisions for the years in question are appropriate. However, there can be no assurance that these matters will be resolved in our favor. Regardless of whether these matters are resolved in our favor, the final resolution of these matters could be expensive and time-consuming to defend and/or settle. While we believe we have provided adequately for these matters, there is a possibility that an adverse outcome of these matters individually or in the aggregate could have a material effect on our results of operations and financial condition.

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

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

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

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

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

We previously initiated a multi-year project to upgrade certain key internal systems and processes, including our company-wide human resources management system, our customer relationship management ("CRM") system and enterprise resource planning ("ERP") system. In the first quarter of 2010, we implemented a major upgrade of our CRM system. In 2012 and continuing into 2013, we expect to implement major changes to our ERP system. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes. Any disruptions or

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delays in the design and implementation of the new systems or processes, particularly any disruptions or delays that impact our operations, could adversely affect our ability to process customer orders, ship products, provide service and support to our customers, bill and track our customers, fulfill contractual obligations, record and transfer information in a timely and accurate manner, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects, the design and implementation of these new systems and processes may be much more costly than we anticipated. If we are unable to successfully design and implement these new systems and processes as planned, or if the implementation of these systems and processes is more costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

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

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

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

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

We may face difficulties enforcing our proprietary rights.

We generally rely on a combination of patents, copyrights, trademarks, and trade secret laws and restrictions on disclosure of confidential and proprietary information, to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently now pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, infringed or circumvented or that our rights will, in fact, provide competitive advantages to us or protect our technology, either of which could result in costly product redesign efforts, discontinuance of certain product offerings and other competitive harm. Furthermore, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled our success.

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

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

In periods of market expansion, we have increased investment in our business by, for example, increasing headcount and increasing our investment in R&D, sales and marketing, and other parts of our business.

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

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

We are required to test annually and review on an interim basis, our goodwill and intangible assets with indefinite lives, including the goodwill associated with acquisitions, to determine if impairment has occurred. As of December 31, 2012, our goodwill was $ 4,057.8 million and our intangible assets were $128.9 million. If goodwill or intangible assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. This would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. For example, such impairment could occur if the market value of our common stock falls below certain levels for a sustained period, or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. In the second quarter of 2006, our impairment evaluation resulted in a reduction of $1,280.0 million to the carrying value of goodwill on our Consolidated Balance Sheets, primarily due to the decline in our market capitalization that occurred over a period of approximately nine months prior to the impairment review and, to a lesser extent, a decrease in forecasted future cash flows. In the third quarter of 2012, our impairment evaluation resulted in a reduction of $5.4 million to the carrying value of certain purchased intangibles on our Consolidated Balance Sheets, primarily due to the decline in discounted cash flow projections. In recent years, economic weakness contributed to extreme price and volume fluctuations in global stock markets that reduced the market price of many technology company stocks, including ours. Future declines in our stock price, as well as declines in our level of revenues or gross margins, increase the risk that goodwill and intangible assets may become impaired in future periods. We cannot accurately predict the amount and timing of any impairment of assets. However, any such impairment would have an adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisitions may also require us to issue common stock or assume equity awards that dilute the ownership of our current stockholders, use a substantial portion of our cash resources, assume liabilities, record goodwill and amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur

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amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2012, we had $2,407.8 million in cash and cash equivalents and $1,429.6 million in short- and long-term investments. We have invested these amounts primarily in asset-backed securities, certificate of deposit, commercial paper, corporate debt securities, foreign government debt securities, government- sponsored enterprise obligations, money market funds, mutual funds, publicly-traded equity securities and U.S. government securities. Certain of these investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets and caused credit and liquidity issues at many financial institutions. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. These market risks associated with our investment portfolio may have a negative adverse effect on our liquidity, financial condition, and results of operations.

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

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

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

- incur liens;

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- incur sale and leaseback transactions; and

- consolidate or merge with or into, or sell substantially all of our assets to, another person

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

Uninsured losses could harm our operating results.

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We lease approximately 2.6 million square feet worldwide, with approximately 60 percent in North America. Our corporate headquarters and facilities are located in Sunnyvale, California, and consists of owned and leased buildings totaling approximately 0.7 million and 1.1 million square feet, respectively. As part of our phased office campus build-out, our corporate headquarters is located on approximately 80 acres of owned land. In November 2012, we began occupying approximately 0.5 million square feet of our owned buildings and will continue to shift occupancy to the remaining 0.2 million square feet in early 2013. This next phase will result in net facilities-related capital expenditures of up to $69 million over the first half of 2013. Each leased facility is subject to an individual lease or sublease, which provides various option, expansion, and extension provisions. Additionally, we lease an approximately 0.2 million square foot facility in Westford, Massachusetts, under a lease that expires in March 2018.

In addition to our offices in Sunnyvale and Westford, we also lease offices in various locations throughout the United States, Canada, South America, EMEA, and APAC regions, including offices in Australia, China, Hong Kong, India, Ireland, Israel, Japan, the Netherlands, Russia, United Arab Emirates, and the United Kingdom.

Our leases expire at various times through November 30, 2022. Our current offices are in good condition and appropriately support our business needs.

For additional information regarding obligations under our operating leases, see Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, which is incorporated by reference herein. For additional information regarding properties by operating segment, see Note 13, Segment Information, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, which is incorporated by reference herein.

ITEM 3. Legal Proceedings

The information set forth under the heading "Legal Proceedings" in Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, is incorporated herein by reference.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock
The principal market on which our common stock is traded is the New York Stock Exchange (the "NYSE"). The following table sets forth the high and low bid prices for our common stock of the two most recently completed years as reported on the NYSE for the years ended December 31, 2012 and 2011, respectively:

	2012		2011	
NYSE	High	Low	High	Low
First quarter	$25.04	$19.67	$45.01	$34.20
Second quarter	$22.89	$15.31	$42.27	$29.03
Third quarter	$20.00	$14.01	$33.11	$17.21
Fourth quarter	$20.67	$15.77	$25.61	$16.67

Stockholders
At February 22, 2013, there were approximately 957 stockholders of record of our common stock, and we believe a substantially greater number of beneficial owners.

Dividends

We have never paid nor do we have present plans to pay cash dividends on our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans
For information regarding compensation plans under which equity securities are authorized for issuance, see Note 12, Employee Benefit Plans, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report.

Unregistered Securities Issued in Fiscal 2012
On December 14, 2012, we issued 5,819,148 shares of our common stock as consideration to 27 individuals in connection with an acquisition of all the outstanding shares of Contrail in the fourth quarter of 2012.

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 information with respect to the shares of common stock we repurchased during the three months ended December 31, 2012 (in millions, except per share amounts):

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1 - October 31, 2012	1.9	$16.43	1.9	$787.8

November 1 - November 30, 2012	12.6	$17.36	12.6	$568.2
December 1 - December 31, 2012	—	$—	—	$568.2
Total	14.5	$17.25	14.5	

(1) December activity includes an insignificant number of share repurchases from our employees in connection with net issuances to satisfy tax withholding obligations for the vesting of certain stock awards.

(2) Shares were repurchased under the stock repurchase program approved by the Board in June 2012 (the "2012 Stock Repurchase Program"), which authorized us to purchase an aggregate of up to $1.0 billion of our common stock from time to time. Future share repurchases under this program will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

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Company Stock Performance

The graph below shows the cumulative total stockholder return over a five-year period assuming the investment of $100 on December 31, 2007, in each of Juniper Networks' common stock, the Standard & Poor's 500 Stock Index (“S&P 500”), the NYSE Dow Jones Industrial Average (“DJI”), and the NASDAQ Telecommunications Index (“IXUT”). The graph shall not be deemed to be incorporated by reference into other SEC filings; nor deemed to be soliciting material or filed with the Commission or subject to Regulation 14A or 14C or subject to Section 18 of the Exchange Act. The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.

Stock Performance Graph

	As of December 31,					
	2007	2008	2009	2010	2011	2012
JNPR	$100.00	$52.74	$80.33	$111.20	$61.48	$59.25
S&P 500	$100.00	$61.51	$75.94	$85.65	$85.65	$97.13
DJI	$100.00	$66.16	$78.61	$87.28	$92.10	$98.79
IXUT	$100.00	$57.02	$84.52	$87.84	$76.75	$78.29

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ITEM 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements and the notes thereto in Item 8, “Financial Statements and Supplementary Data,” of this Report, which are incorporated herein by reference.

The information presented below reflects the impact of certain significant transactions and the adoption of certain accounting pronouncements, which makes a direct comparison difficult between each of the last five fiscal years. For a complete description of matters affecting the results in the tables below during the three years ended December 31, 2012, see “Notes to Consolidated Financial Statements” in Item 8 of Part II of this Report.

Consolidated Statements of Operations Data

	Years Ended December 31,				
	2012(a)	2011(b)	2010(c)	2009(d)	2008(e)
	(In millions, except per share data)				
Net revenues	$4,365.4	$4,448.7	$4,093.3	$3,315.9	$3,572.4
Cost of revenues	1,656.6	1,580.1	1,351.5	1,132.7	1,136.9
Gross margin	2,708.8	2,868.6	2,741.8	2,183.2	2,435.5
Operating expenses	2,400.7	2,250.1	1,974.2	1,872.5	1,740.5
Operating income	308.1	618.5	767.6	310.7	695.0
Other (expense) income, net	(16.6)	(46.8)	10.6	1.4	33.9
Income before income taxes and noncontrolling interest	291.5	571.7	778.2	312.1	728.9
Provision for income taxes	105.0	146.7	158.8	196.8	217.2
Consolidated net income	186.5	425.0	619.4	115.2	511.7
Adjust for net loss (income) attributable to noncontrolling interest	—	0.1	(1.0)	1.8	—
Net income attributable to Juniper Networks	$186.5	$425.1	$618.4	$117.0	$511.7
Net income per share attributable to Juniper Networks common stockholders:					
Basic	$0.36	$0.80	$1.18	$0.22	$0.96
Diluted	$0.35	$0.79	$1.15	$0.22	$0.93
Shares used in computing net income per share:					
Basic	520.9	529.8	522.4	523.6	530.3
Diluted	526.2	541.4	538.8	534.0	551.4

(a) Includes the following significant pre-tax items: stock based compensation of $243.4 million, restructuring and other charges of $99.7 million, acquisition-related charges of $2.0 million, interest expense on debt (net of amounts capitalized) of $40.0 million, and a net gain on privately-held investments of $25.5 million.

(b) Includes the following significant pre-tax items: stock-based compensation of $222.2 million, restructuring and other charges of $30.6 million, acquisition-related charges of $9.6 million, interest expense on debt (net of amounts capitalized) of $37.7 million, and a net loss on privately-held investments of $0.3 million.

(c) Includes the following significant pre-tax items: stock-based compensation of $182.0 million, restructuring charges of $10.8 million, acquisition-related charges of $6.3 million, and a gain on privately-held investments of $8.7 million. In addition, includes a non-recurring income tax benefit of $54.1 million recorded in the first quarter from a change in estimate of unrecognized tax benefits related to share-based compensation. The change resulted from the decision in the first quarter of 2010 of the U.S. Court of Appeals for the Ninth Circuit in Xilinx Inc. v. Commissioner.

(d) Includes the following significant pre-tax items: stock-based compensation of $139.7 million, litigation settlement charges of $182.3 million, write-down of privately-held equity investments of $5.5 million, and restructuring charges of $19.5 million. In addition, includes the following significant tax items: $61.8 million related to the write-off of certain net deferred tax assets resulting from a change in California income tax law, $52.1 million related to a change in the tax treatment of stock-based compensation expense in transfer pricing arrangements for certain U.S. multinational companies due to a federal appellate court ruling, and $4.6 million related to an investigation by the India tax authorities.

(e) Includes the following significant pre-tax items: stock-based compensation of $108.1 million, write-down of privately-held equity investments of $11.3 million, other-than-temporary decline in publicly-traded equity investment of $3.5 million, and litigation settlement charge of $9.0 million.

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Consolidated Balance Sheet Data

	As of December 31,				
	2012	2011	2010	2009	2008
	(In millions)				
Cash, cash equivalents, and investments	$3,837.4	$4,292.4	$2,821.6	$2,658.7	$2,293.4
Working capital	2,178.7	2,973.0	1,742.4	1,503.2	1,759.6
Goodwill	4,057.8	3,928.1	3,927.8	3,658.6	3,658.6
Total assets	9,832.1	9,983.8	8,467.9	7,590.3	7,187.3
Long-term debt	999.2	999.0	—	—	—
Total long-term liabilities (excluding long-term debt)	411.4	428.4	387.1	389.7	229.3
Total Juniper Networks stockholders' equity	$6,999.0	$7,089.2	$6,608.2	$5,822.1	$5,901.4

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K (“Report”), including the “Management's Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and the future results of Juniper Networks, Inc. ("we," "us," or the “Company”) that are based on our current expectations, estimates, forecasts, and projections about our business, our results of operations, the industry in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “would,” “c “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled “Risk Factors” in Item 1A of Part I and elsewhere, and in other reports we file with 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.

The following discussion is based upon our Consolidated Financial Statements included elsewhere in this Report, which have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingencies. On an ongoing basis, we evaluate our estimates, including those related to sales returns, pricing credits, warranty costs, allowance for doubtful accounts, impairment of long-term assets, especially goodwill and intangible assets, contract manufacturer exposures for carrying and obsolete material charges, assumptions used in the valuation of share-based compensation, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For further information about our critical accounting policies and estimates, see Note 2, Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, and our “Critical Accounting Policies and Estimates” section included in this “Management's Discussion and Analysis of Financial Condition and Results of Operations.” Actual results may differ from these estimates under different assumptions or conditions.

To aid in understanding our operating results for the periods covered by this Report, we have provided an executive overview and a summary of the business and market environment. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 7, our “Risk Factors” section included in Item 1A of Part I, and our Consolidated Financial Statements and notes thereto included in Item 8 of Part II of this Report.

Business and Market Environment

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

We do business in three geographic regions: Americas, EMEA, and APAC. Beginning in the first quarter of 2012, we aligned our organizational structure to focus on our platform and software strategy, which resulted in two business segments organized principally by product families: PSD and SSD. Our PSD segment primarily offers scalable routing and switching products that are used in service provider, enterprise, and public sector networks to control and direct network traffic between data centers, core, edge, aggregation, campus, WANs, branch, and consumer and business devices. Our SSD segment offers software solutions focused on network security and network services applications for both service providers and enterprise customers. Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to our customers.

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We remain focused on a common vision for the new network and we believe that the organizational structure we have in place will effectively drive our innovative portfolio and support our customers' next-generation network requirements. Together, our high-performance product and service offerings help our customers to convert legacy networks that provide commoditized services into more valuable assets that provide differentiation, value, increased performance, reliability, and security to end-users. We remain dedicated to uncovering new ideas and innovations that will serve the exponentially increasing demands of the networked world, and we will endeavor to continue to build solutions that center on simplification, automation, and open innovation.
During 2012, we saw moderate growth in some of our primary markets. We continued to experience an uncertain global macroeconomic environment in which our customers exercised care and conservatism in their investment prioritization and project deployments. We expect that our customers will continue to remain cautious with their capital spending in the near term. We also continued to experience declining product gross margins and pricing pressures from our competitors. We believe our product gross margins may continue to decline in the future, offset by operational improvements and cost efficiencies. Nevertheless, we are focused on executing our strategy to address the market trends of mobile Internet and cloud computing and we continue to see positive long-term fundamentals for high-performance networking.

We continue to invest in innovation and strengthening our product portfolio, which resulted in new product offerings during 2012, including a smaller version of our QFabric solutions, the latest QFX3000-M QFabric System, T4000 Core Routers, PTX Series Packet Transport switches. Additionally, we experienced new customer wins contributing to the growth in the EX Series, MX Series, and SRX Series. We launched the new ACX Series router with support for both Ethernet access/aggregation and MPLS, which extends network intelligence closer to the subscriber and features an open, standards-based management system with software development kit ("SDK")-enabled programmability to enable rapid third-party innovation. We also announced new products and features in our Simply Connected portfolio, including SRX Series Services Gateways and WLA Series Wireless LAN Access Points, which simplify and secure mobile device access to enterprise networks. Furthermore, we acquired Mykonos Web Security Software, in February 2012 to complement our network security applications portfolio.

Additionally, we announced innovative products to enable service providers to rapidly deliver and expand new consumer and business services. These products include our MX2020 and MX2010 3D Universal Edge Routers and new JunosV App Engine, which enable service providers to transform the network edge into a platform for rapid service deployment. We also launched the Junos Content Encore with MX Application Services Modular Line Card, which enables the delivery of premium content services over broadband connections across multiple device types. Furthermore, we announced a technology partnership with Riverbed Technology, Inc. ("Riverbed") that provides us with new capabilities for application delivery control, in exchange for Juniper providing WAN acceleration technology to Riverbed, along with promoting Riverbed as its WAN optimization provider of choice going forward.

Throughout 2012, we focused on improved operational execution, continued innovation, and prudent capital allocation. We continue to believe that the underlying trends driving network investment around the cloud and mobility are intact and remain strong. During 2012, we also initiated a variety of actions to ensure we are positioned for the future, resulting in a restructuring plan (the "2012 Restructuring Plan") to bring our cost structure more in line with our desired long-term financial and strategic model. The 2012 Restructuring Plan consists of workforce reductions, facility consolidations or closures, and supply chain and procurement efficiencies. In connection with the 2012 Restructuring Plan, we recorded costs of $40.4 million for workforce reductions, facility consolidations or closures, and other charges during 2012. We also recorded certain inventory charges, intangible asset impairment charges, and contract termination costs of $52.9 million. We expect to incur charges related to the 2012 Restructuring Plan through the end of fiscal 2013. We continue to anticipate that our restructuring and cost reduction activities will result in approximately $150.0 million in cost reduction savings, primarily in operating expenses, and to a lesser extent, in both product and service cost of revenues for the full year 2013, in comparison to our 2012 full year levels. See Note 9, Restructuring and Other Charges, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, for further discussion of our restructuring activities.

On January 24, 2013, we communicated the following five principles that provide insight on our operating plans for 2013:

- We expect the macroeconomic environment to remain uncertain;
- We expect overall modest growth in the markets we serve;
- We expect to take share in routing and switching and stabilize our share in enterprise security;
- We expect to expand 2013 operating margins over 2012; and
- We expect to continue to generate strong cash flows and prudently allocate capital.

These five principles are based on our management's plans, assumptions, and expectations as of the date of this Report. Although we believe we have been prudent in our plans, expectations, and assumptions, should known or unknown risks or uncertainties materialize or should underlying assumptions prove inaccurate, actual results could vary materially.

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Financial Results and Key Performance Metrics Overview

The following table provides an overview of our key financial metrics for the years ended December 31, 2012, 2011, and 2010 (in millions, except per share amounts, percentages, day sales outstanding, and book-to-bill):

	As of and for the Years Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
Net revenues	$4,365.4	$4,448.7	$4,093.3	$(83.3)	(2)%	$355.4	9%
Gross Margin	$2,708.8	$2,868.6	$2,741.8	$(159.8)	(6)%	$126.8	5%
Percentage of net revenues	62.1%	64.5%	67.0%				
Operating income	$308.1	$618.5	$767.6	$(310.4)	(50)%	$(149.1)	(19)%
Percentage of net revenues	7.1%	13.9%	18.8%				
Net income attributable to Juniper Networks	$186.5	$425.1	$618.4	$(238.6)	(56)%	$(193.3)	(31)%
Percentage of net revenues	4.3%	9.6%	15.1%				
Net income per share attributable to Juniper Networks common stockholders:							
Basic	$0.36	$0.80	$1.18	$(0.44)	(55)%	$(0.38)	(32)%
Diluted	$0.35	$0.79	$1.15	$(0.44)	(56)%	$(0.36)	(31)%
Operating cash flows	$642.4	$986.7	$812.3	$(344.3)	(35)%	$174.4	21%
Deferred revenue	$923.4	$967.0	$884.4	$(43.6)	(5)%	$82.6	9%
Day sales outstanding ("DSO") (*)	35	46	45	(11)	(24)%	1	2%
Book-to-bill (*)	>1	1	>1				

(*) DSO and book-to-bill are for the fourth quarter ended 2012, 2011, and 2010.

- Net Revenues: Our net revenue decreased in our EMEA and APAC regions, offset by an increase in the Americas region in 2012, compared to 2011. By market, we experienced declines in both service provider and enterprise markets in 2012, compared to 2011. The year-over-year decrease in our net revenues during 2012 was primarily due to a decline in sales of our core and edge legacy routing products and firewall products, partially offset by increases in our service revenue, switching products, and high-end SRX products.

- Gross Margin: Our gross margin as a percentage of revenues decreased in 2012, compared to 2011, due to lower product margin from $44.3 million in inventory charges related to component inventory held in excess of forecasted demand and an intangible asset impairment charge of $16.1 million, and to a lesser extent, due to an increase in the size and number of strategic contracts with lower margins, and a shift in product mix to lower margin products. This decrease was partially offset by an increase in service margin.

- Operating Income: Our operating income as a percentage of revenues decreased in 2012, compared to 2011, primarily due to slower revenue growth relative to our sales and marketing and research and development expense, as we continue to invest in our innovative portfolio and bring new products to market. In addition, restructuring and other associated charges of $99.7 million were recorded in 2012, related to workforce reduction activities, facility closures, asset impairment charges, and contract terminations.

- Net Income Attributable to Juniper Networks and Net Income Per Share Attributable to Juniper Networks Common Stockholders: The decrease in net income attributable to Juniper Networks in 2012, compared to 2011, reflects the lower operating income discussed above.
- Operating Cash Flows: Operating cash flows decreased in 2012, compared to 2011, primarily due to lower net income, higher taxes paid, timing of payments to our vendors, and a decrease in deferred revenue, offset by collections of our outstanding receivables.

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- Deferred Revenue: Total deferred revenue decreased $43.6 million to $923.4 million as of December 31, 2012, compared to $967.0 million as of December 31, 2011, due to a decline in deferred service revenue, partially offset by an increase in deferred product revenue.

- DSO: DSO is calculated as the ratio of ending accounts receivable, net of allowances, divided by average daily net sales for the preceding 90 days. DSO for the quarter ended December 31, 2012 decreased by 11 days, or 24% compared to the quarter ended December 31, 2011. The decrease was primarily due to shipment linearity, resulting in a greater proportion of the periods shipments converted to cash by the end of the period and an increase in collections on our outstanding receivables.

- Book-to-Bill: Book-to-bill represents the ratio of product orders booked divided by product revenues during the respective period. Book-to-bill was greater than one for the quarter ended December 31, 2012 and one for the quarter ended December 31, 2011.

- Stock Repurchase Plan Activity: Under our stock repurchase program, we repurchased approximately 35.8 million shares of our common stock at an average price of $18.05 per share for an aggregate purchase price of $645.6 million during the year ended December 31, 2012.

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 Consolidated Financial Statements and the accompanying notes. We base our estimates and assumptions on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. Note 2, Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The critical accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements and actual results could differ materially from the amounts reported based on these policies. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

- Inventory Valuation and Contract Manufacturer Liabilities. Inventory consists primarily of component parts to be used in the manufacturing process and is stated at lower of average cost or market. A provision is recorded when inventory is determined to be in excess of anticipated demand or obsolete, to adjust inventory to its estimated realizable value. In determining the provision, we also consider estimated recovery rates based on the nature of the inventory. As of December 31, 2012 and 2011, our inventory balances were $62.5 million and $69.1 million, respectively.

We establish a liability for non-cancelable, non-returnable purchase commitments with our contract manufacturers for carrying charges, quantities in excess of our demand forecasts, or obsolete material charges for components purchased by the contract manufacturers to meet our demand forecasts or customer orders. We also take estimated recoveries of aged inventory into consideration when determining the liability. As of December 31, 2012 and 2011, our contract manufacturer liabilities were $27.7 million and $14.8 million, respectively.

Significant judgment is used in establishing our forecasts of future demand, recovery rates based on the nature and age of inventory, and obsolete material exposures. If the actual component usage and product demand are significantly lower than forecast, which may be caused by factors within and outside of our control, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and our customer requirements, we may be required to increase our inventory write-downs and contract manufacturer liabilities, which could have an adverse impact on our gross margins and profitability. We regularly evaluate our exposure for inventory write-downs and adequacy of our contract manufacturer liabilities. Inventory and supply chain management remains an area of focus as we balance the risk of material obsolescence and supply chain flexibility in order to reduce lead times.

- Goodwill and Other Long-Lived Assets. We make significant estimates, assumptions, and judgments when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating impairment of goodwill and other intangible assets on an ongoing basis. These estimates are based upon a number of factors, including historical experience, market conditions, and information obtained from the management of the acquired company. Critical estimates in valuing certain intangible assets include, but are not limited to, historical and projected customer retention rates, anticipated growth in revenue from the acquired customer

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and product base, and the expected use of the acquired assets. These factors are also considered in determining the useful life of the acquired intangible assets. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense.

The value of our goodwill and intangible assets could be impacted by future adverse changes such as, but not limited to: (a) a significant adverse change in legal factors or in the business climate; (b) a substantial decline in our market capitalization, (c) an adverse action or assessment by a regulator; (d) unanticipated competition; (e) loss of key personnel; (f) a more likely-than-not expectation of sale or disposal of a reporting unit or a significant portion thereof; (g) a realignment of our resources or restructuring of our existing businesses in response to changes to industry and market conditions; (h) testing for recoverability of a significant asset group within a reporting unit; or (i) higher discount rate used in the impairment analysis as impacted by an increase in interest rates.

We evaluate goodwill on an annual basis as of November 1st or more frequently if we believe impairment indicators exist. Goodwill is tested for impairment at the reporting unit level, which is one level below our operating segment level, by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using significant judgment based on a combination of the income and the market approaches. Under the income approach, we estimate fair value of a reporting unit based on the present value of forecasted future cash flows that the reporting unit is expected to generate over its remaining life. Under the market approach, we estimate fair value of our reporting units based on an analysis that compares the value of the reporting units to values of publicly-traded companies in similar lines of business. If the fair value of the reporting unit does not exceed the carrying value of the net assets assigned to the reporting unit, then we perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. When the carrying value of a reporting unit's goodwill exceeds its implied fair value, we record an impairment loss equal to the difference. Determining the fair value of a reporting unit is highly judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, operating trends, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocated shared assets and liabilities to determine the carrying values for each of our reporting units. As of December 31, 2012, goodwill recorded for our PSD segment and SSD segment was $1,866.3 million and $2,191.5 million, respectively. The fair value of our reporting units, in particular SSD, are sensitive to events or changes in circumstances, such as adverse changes in operating results or macro-economic conditions, changes in management's business strategy, or declines in our stock price. A hypothetical 5% decrease in the estimated fair value of our reporting units would result in the fair value of our SSD segment to be above its carrying value by approximately 1% and the fair value of our PSD segment to be in excess of its carrying value by approximately 80%. See Item 1A of Part I, "Risk Factors," for more information.

We evaluate long-lived assets, such as property, plant and equipment, and purchased intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such events or changes in circumstances include, but are not limited to, a significant decrease in the fair value of the underlying asset or asset group, a significant decrease in the benefits realized from the acquired assets, difficulty and delays in integrating the business or a significant change in the operations of the acquired assets or use of an asset. A long-lived asset is considered impaired if its carrying amount exceeds the estimated future undiscounted cash flows the asset or asset group is expected to generate. If a long-lived asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group.

- Warranty Reserves. We generally offer a one-year warranty on all of our hardware products and a 90-day warranty on the media that contains the software embedded in the products. We use judgment and estimates when determining warranty costs as part of our cost of sales based on associated material costs, labor costs for trouble-shooting and repair, and overhead at the time revenue is recognized. Material cost is estimated primarily based upon the historical costs to repair or replace product returns within the warranty period. Technical support labor and overhead cost are estimated primarily based upon historical trends in the cost to support the customer cases within the warranty period. Although we engage in extensive product quality programs and processes, if actual product failure rates, use of materials, or service delivery costs differ from estimates, additional warranty costs may be incurred, which could reduce gross margin. As of December 31, 2012 and 2011, our warranty reserves were $29.7 million and $28.3 million, respectively.

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- Revenue recognition. Revenue is recognized when all of the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) sales price is fixed or determinable, and (4) collectability is reasonably assured. We enter into contracts to sell our products and services, and while some of our sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, significant contract interpretation may be required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition but will not change the total revenue recognized on the contract.

Under our revenue recognition policies, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on our vendor-specific objective evidence (“VSOE”) if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price (“ESP”) if neither VSOE nor TPE is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately. TPE of selling price is established by evaluating largely interchangeable competitor products or services in stand-alone sales to similarly situated customers. ESP is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and product life cycle. Consideration is also given to market conditions such as industry pricing strategies and technology life cycles. When determining ESP, we apply management judgment to establish margin objectives and pricing strategies and to evaluate market conditions and product life cycles. We do not use TPE as we do not consider our products to be similar or interchangeable to our competitors' products in standalone sales to similarly situated customers. Revenue from maintenance service contracts is deferred and recognized ratably over the contractual support period, which is generally one to three years. We applied ESP to the majority of our product revenue and VSOE to our service revenue in 2012, 2011, and 2010.

- Share-Based Compensation. We recognize share-based compensation expense for all share-based payment awards including stock options, RSUs, RSAs, PSAs, and purchases under our Employee Stock Purchase Plan ("ESPP") based on each award's fair value on the grant date.

We utilize the Black-Scholes-Merton (“BSM”) option-pricing model in order to determine the fair value of stock options and ESPP. The BSM model requires various highly subjective assumptions including volatility, expected award life, and risk-free interest rate. The expected volatility is based on the implied volatility of market traded options on our common stock, adjusted for other relevant factors including historical volatility of our common stock over the most recent period commensurate with the estimated expected life of our stock options. The expected life of an award is based on historical experience. We determine the fair value of RSUs, RSAs and PSAs based on the closing market price of our common stock on the date of grant. In addition, we use significant judgment in estimating share-based compensation expense for our PSAs based on the vesting criteria and only recognize expense for the portions in which annual targets have been set.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our share-based compensation expense could be materially different in the future. Additionally, we are required to estimate the expected forfeiture rate based on historical experience, as well as judgment, and recognize expense only for those expected-to-vest shares. If our actual forfeiture rate is materially different from our estimate, our recorded share-based compensation expense could be different.

- Income Taxes. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different that the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

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

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Our provision for income taxes is subject to volatility and could be adversely affected by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments, including the effect of acquisitions on our intercompany R&D cost-sharing arrangement and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely affect our provision for income taxes or additional paid-in capital. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

- Loss Contingencies. We use significant judgment and assumptions to estimate the likelihood of loss or impairment of an asset, or the incurrence of a liability, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We record a charge equal to the minimum estimated liability for litigation costs or a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of our consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

Recent Accounting Pronouncements

See Note 2, Significant Accounting Policies, in Notes to the Consolidated Financial Statements in Item 8 of Part II of this Report, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial condition and results of operations, which is incorporated herein by reference.

Results of Operations

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

	Years Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
Product	$3,262.1	$3,478.3	$3,258.7	$(216.2)	(6)%	$219.6	7%
Percentage of net revenues	74.7%	78.2%	79.6%				
Service	1,103.3	970.4	834.6	132.9	14%	135.8	16%
Percentage of net revenues	25.3%	21.8%	20.4%				
Total net revenues	$4,365.4	$4,448.7	$4,093.3	$(83.3)	(2)%	$355.4	9%

The decrease in product revenues in 2012, compared to 2011, was primarily due to a decline in sales of our core and edge legacy routing and firewall products, partially offset by an increase in our switching and high-end SRX products.

Our 2012 revenues reflect initial sales from the introduction of our T4000, PTX and ACX routing products. The increase in service revenues in 2012 was primarily driven by strong contract renewals compared to 2011 for certain edge routing, switching and security products.

The increase in product revenues in 2011, compared to 2010, was primarily due to an increase in sales of our edge routing and switching products, partially offset by decreases in core routing and high-end firewall products. Our 2011 revenues reflect initial sales from the introduction of our QFabric solution. The increase in service revenues in 2011, compared to 2010, was primarily attributable to sales and contract renewals for certain edge routing, switching, and security products.

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Net Revenues by Market and Customer

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

	Years Ended December 31,							
	2012	2011	2010	2012 vs. 2011		2011 vs. 2010		
				$ Change	% Change	$ Change	% Change	
Service Provider	$2,811.2	$2,833.0	$2,631.5	$(21.8)	(1)%	$201.5	8%	
Percentage of net revenues	64.4%	63.7%	64.3%					
Enterprise	1,554.2	1,615.7	1,461.8	(61.5)	(4)%	153.9	11%	
Percentage of net revenues	35.6%	36.3%	35.7%					
Total net revenues	$4,365.4	$4,448.7	$4,093.3	$(83.3)	(2)%	$355.4	9%	

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

Net revenues from sales to the service provider market decreased in 2012, compared to 2011, primarily due to reduced routing purchases by some of our international and content service providers, partially offset by strong growth from Tier 1 carrier service providers in the Americas. Net revenues from sales to the service provider market increased in 2011, compared to 2010, across all of our geographic regions, specifically in the Americas and EMEA. The increase was largely attributable to customers' adoption of our routing and switching products.

Net revenues generated from the enterprise market decreased in 2012, compared to 2011, primarily due to lower revenue in federal and financial services, offset by our expanding presence in APAC and EMEA. Net revenues generated from the enterprise market increased in 2011 compared to 2010 across all three geographic regions. The increase, reflecting demand for both routing and switching products, was driven by the value proposition we offer to customers as well the expansion of our presence in the global enterprise market.

In 2012 and 2010, Verizon Communications, Inc. accounted for 10.3% and 10.4% of our net revenues, respectively. In 2011, no single customer accounted for greater than 10% of our net revenues

Net Revenues by Geographic Region

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

	Years Ended December 31,						
	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				$ Change	% Change	$ Change	% Change
Americas:							
United States	$2,067.5	$2,015.8	$1,890.1	$51.7	3%	$125.7	7%
Other	218.4	222.2	205.5	(3.8)	(2)%	16.7	8%
Total Americas	2,285.9	2,238.0	2,095.6	47.9	2%	142.4	7%
Percentage of net revenues	52.4%	50.3%	51.2%				

EMEA	1,266.3		1,339.8		1,189.3		(73.5	) (5)%	150.5	13%
Percentage of net revenues	29.0	%	30.1	%	29.1	%				
APAC	813.2		870.9		808.4		(57.7	) (7)%	62.5	8%
Percentage of net revenues	18.6	%	19.6	%	19.7	%				
Total net revenues	$4,365.4		$4,448.7		$4,093.3		$(83.3	) (2)%	$355.4	9%

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Net revenues in the Americas increased in 2012, compared to 2011, primarily due to increased sales in the United States to certain service providers, offset by a decline in the enterprise market particularly among federal and financial services customers. Net revenues in the Americas increased in 2011, compared to 2010, primarily due to increased sales in the United States attributable to the demand for our routing and switching products and services from enterprise and service provider customers.

Net revenues in EMEA decreased in 2012, compared to 2011, primarily due to decreased sales in Western and Southern Europe as a result of the challenging economic climate in those areas. The decrease was partially offset by increased revenues in the Middle East and from a top service provider in Eastern Europe, across a broad range of our product portfolio. The increase in net revenues in EMEA in 2011, compared to 2010, was driven by service provider and enterprise demand for our routing and switching products and related services, in both the service provider and enterprise markets. The increases were largely attributable to Sweden, Eastern Europe, and the Netherlands. In addition, we recognized the first revenue from a top service provider in Eastern Europe, across a broad range of our product portfolio.

Net revenues in APAC decreased in 2012, compared to 2011, primarily due to a decrease in sales to a certain service provider customer in Japan, following a large product deployment that occurred in 2011. This decrease was partially offset by growth in China in the enterprise market. Net revenues in APAC increased in 2011, compared to 2010, due to the increase in revenues from both service provider and enterprise markets. Net revenues also increased in Southeast Asia and Australia in 2011, compared to 2010, partially offset by continued weakness in Japan and a deferral of some demand in China.

Gross Margins

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

	Years Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
Product gross margin	$2,058.1	$2,323.0	$2,257.8	$(264.9)	(11)%	$65.2	3%
Percentage of product revenues	63.1%	66.8%	69.3%				
Service gross margin	650.7	545.6	484.0	105.1	19%	61.6	13%
Percentage of service revenues	59.0%	56.2%	58.0%				
Total gross margin	$2,708.8	$2,868.6	$2,741.8	$(159.8)	(6)%	$126.8	5%
Percentage of net revenues	62.1%	64.5%	67.0%				

Product gross margin percentage decreased in 2012, compared to 2011, primarily due to a $44.3 million inventory charge related to component inventory held in excess of forecasted demand and to an intangible asset impairment charge of $16.1 million related to our 2012 restructuring activities as discussed in Note 8, Other Financial Information, and Note 7, Goodwill and Purchased Intangible Assets, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report. To a lesser extent, the decrease was due to an increase in the size and number of strategic contracts with lower margins and to a shift in product mix to lower margin products. Product gross margin percentage decreased in 2011, compared to 2010, primarily due to a lower proportion of router revenue, a shift in the geographic mix of revenue from the Americas, and increased fixed overhead and inventory-related costs. From 2010 through 2012, our product gross margins have declined. We expect this trend to continue into 2013, due to a shift in product mix and pricing pressures offset in part by innovation and cost efficiencies.

Service gross margin percentage increased in 2012, compared to 2011, primarily due to higher service revenues, combined with a continuing focus on operational improvements and cost efficiencies. Service gross margin percentage decreased in 2011, compared to 2010, primarily due to a growth in headcount for service and support resources for our expanded product portfolio. We expect service gross margins to remain relatively stable in 2013.

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Operating Expenses

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

	Years Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
Research and development	$1,101.6	$1,026.8	$917.9	$74.8	7%	$108.9	12%
Percentage of net revenues	25.2%	23.1%	22.4%				
Sales and marketing	1,042.0	1,001.1	857.1	40.9	4%	144.0	17%
Percentage of net revenues	23.9%	22.5%	20.9%				
General and administrative	203.6	179.1	177.9	24.5	14%	1.2	1%
Percentage of net revenues	4.7%	4.0%	4.3%				
Amortization of purchased intangible assets	4.7	5.4	4.2	(0.7)	(13)%	1.2	29%
Percentage of net revenues	0.1%	0.1%	0.1%				
Restructuring and other charges	46.8	30.6	10.8	16.2	53%	19.8	183%
Percentage of net revenues	1.1%	0.7%	0.3%				
Acquisition-related charges	2.0	7.1	6.3	(5.1)	(72)%	0.8	13%
Percentage of net revenues	—%	0.2%	0.2%				
Total operating expenses	$2,400.7	$2,250.1	$1,974.2	$150.6	7%	$275.9	14%
Percentage of net revenues	55.0%	50.6%	48.2%				

Our operating expenses have historically been driven by personnel-related costs, including wages, commissions, bonuses, vacation, benefits, share-based compensation, and travel, and we expect this trend to continue. Facility and information technology ("IT") departmental costs are allocated to other departments based on usage and headcount. Facility and IT related headcount was 368, 375, 388, as of December 31, 2012, 2011, and 2010, respectively. We had a total of 9,234, 9,129, and 8,772 employees as of December 31, 2012, 2011, and 2010, respectively. The year-over-year increase in total operating expenses in 2012 was primarily driven by an increase in personnel-related costs of $81.2 million, primarily from salaries, benefits, higher variable compensation and share-based compensation, offset by lower commissions, and headcount growth, and an increase in engineering program costs of $12.2 million.

R&D expense increased in 2012, compared to 2011, primarily due to an increase in engineering program costs driven by new product initiatives in the first half of the year in addition to higher variable compensation. Our R&D headcount decreased by 1% as of December 31, 2012, to 4,081 compared to 4,138 as of December 31, 2011, as a result of our restructuring activities in the second half of 2012. R&D expense increased in 2011, compared to 2010, primarily due to an increase in personnel-related expenses. Also contributing to the increase was higher consulting, facilities, and IT costs associated with our R&D projects to support our new product initiatives, including the data center, mobility, and core solutions. This increase was partially offset by lower variable compensation in 2011.

Sales and marketing expense increased slightly in 2012, compared to 2011, primarily due to an increase in personnel-related expenses from a 4% increase in headcount from 2,568 employees as of December 31, 2011 to 2,680 employees as of December 31, 2012, as well as higher demo costs associated with bringing new products to market. These increases were partially offset by lower commissions and a decrease in outside services. Sales and marketing expense increased in 2011, compared to 2010, primarily due to an increase in personnel-related expenses. Also contributing to the increase in 2011 was an increase in commission expense driven by higher revenues and an increase in outside services incurred to support our sales and marketing activities.

General and administrative ("G&A") expense increased in 2012, compared to 2011, primarily due to an increase in outside professional services, which consists of legal and consulting fees to support our finance-related initiatives, including our ERP implementation. G&A headcount increased 5% from 463 as of December 31, 2011 to 486 as of December 31, 2012. G&A expense was relatively flat in 2011, compared to 2010, as costs associated with the G&A headcount growth of 3%, from 449 at December 31, 2010 to 463 at December 31, 2011, were largely offset by lower variable compensation.

Amortization of purchased intangible assets decreased in 2012, compared to 2011, as certain purchased intangible assets reached the end of their amortization period during 2011, partially offset by the addition of purchased intangible assets from

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acquisitions completed during 2012. Amortization of purchased intangible assets increased in 2011 compared to 2010, due to the addition of purchased intangible assets from acquisitions during 2011 and 2010.

Restructuring and other charges increased in 2012, compared to 2011, due to a restructuring plan (the "2012 Restructuring Plan") initiated in the third quarter of 2012 to bring our cost structure in line with our desired long-term financial and strategic model. We also incurred charges related to a restructuring plan (the "2011 Restructuring Plan") implemented in the third quarter of 2011 to align our business operations with macroeconomic and other market conditions. During 2012, we incurred $46.8 million of restructuring and other charges related to our restructuring plans primarily for workforce reductions and facility closures. Restructuring and other charges increased in 2011, compared to 2010, primarily due to $15.3 million of charges related to workforce reductions and $13.5 million in other charges primarily related to the impairment of an abandoned in-process internal use software project.

Acquisition-related charges decreased during 2012, compared to 2011, due to a lower number and size of acquisitions completed in 2012 compared to both 2011 and the fourth quarter of 2010. In 2011 and 2010, we recorded $7.1 million and $6.3 million, respectively, in direct and indirect acquisition-related costs such as financial advisory, legal, due diligence, and integration costs from acquisitions completed in 2011 and 2010. See Note 3, Business Combinations, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, for further discussion of these acquisitions.

Share-Based Compensation

Share-based compensation expense associated with stock options, ESPP, RSUs, RSAs, and PSAs was recorded in the following cost and expense categories (in millions, except percentages):

	Years Ended December 31,						
	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				$ Change	% Change	$ Change	% Change
Cost of revenues - Product	$4.6	$4.6	$4.4	$—	—%	$0.2	5%
Cost of revenues - Service	17.0	15.7	13.5	1.3	8%	2.2	16%
Research and development	109.1	97.7	78.5	11.4	12%	19.2	24%
Sales and marketing	81.6	70.9	54.9	10.7	15%	16.0	29%
General and administrative	31.1	33.3	30.7	(2.2)	(7)%	2.6	8%
Total	$243.4	$222.2	$182.0	$21.2	10%	$40.2	22%

Share-based compensation expense increased in 2012, compared to 2011, primarily due to a higher number of RSU awards granted as well as a change in standard vesting terms from four years to three years for those RSU awards granted in 2012. This increase was partially offset by a decrease in stock options grants valued at a lower fair value and a decrease in expense associated with PSAs due to lower achievement of performance targets. Share-based compensation expense increased in 2011, compared to 2010, primarily due to the increase in awards granted driven by headcount growth and higher fair value of equity awards attributable to the increase in the market value of our common stock for those awards.

Other (Expense) Income, Net and Income Tax Provision

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

	Years Ended December 31,						
	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				$ Change	% Change	$ Change	% Change
Interest income	$11.0	$9.7	$10.5	$1.3	13%	$(0.8)	(8)%
Interest expense	(52.9)	(49.5)	(8.7)	(3.4)	7%	(40.8)	469%

Other	25.3		(7.0	)	8.8		32.3		(461	)%	(15.8	)	(180)%
Total other (expense) income, net	$(16.6	)	$(46.8	)	$10.6		$30.2		(65	)%	$(57.4	)	(542)%
Percentage of net revenues	(0.4	)%	(1.1	)%	0.3	%							
Income tax provision	$105.0		$146.7		$158.8		$(41.7	)	(28	)%	$(12.1	)	(8)%
Effective tax rate	36.0	%	25.7	%	20.4	%							

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Interest income primarily includes interest income from our cash, cash equivalents, and investments. Interest income increased in 2012, compared to 2011, primarily due to a higher balance of long-term investments yielding higher interest. Interest income decreased in 2011, compared to 2010, primarily due to a lower balance of long-term investments yielding lower interest. Interest expense primarily consists of interest from our long-term debt and customer financing arrangements. Interest expense increased in 2012, compared to 2011, primarily due to the issuance of $1.0 billion of our senior notes (the "Notes") near the end of the first quarter of 2011 and related interest expense of $40.0 million, net of capitalized interest. Interest expense increased in 2011, compared to 2010, primarily due to $37.7 million of interest expense, net of capitalized interest, on the Notes. See Note 10, Long-Term Debt and Financing, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for further discussion of the Notes. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items. In 2012, we recognized gains of $45.5 million, including a gain of $14.7 million from the acquisition of our privately-held investment in Contrail, and impairment losses of $20.0 million included in other, related to our privately-held investments. In 2011, Other included certain legal expenses unrelated to current or recent operations of approximately $7.0 million. In 2010, we recognized a total gain of $8.7 million within Other, primarily due to acquisitions of our privately-held investments in Ankeena and Altor.

Our effective tax rates were 36.0%, 25.7%, 20.4% in 2012, 2011, and 2010, respectively. The effective rate for 2012 is substantially similar to the federal statutory rate of 35%. The effective rate for 2012 does not reflect the benefit of the federal R&D credit which expired on December 31, 2011. On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012, which retroactively extended the federal R&D credit for two years through December 31, 2013. As a result we expect to record a favorable benefit of approximately$17.0 million to $19.0 million in the first quarter of 2013 from the retroactive renewal of the 2012 federal R&D credit.

The increase in the overall effective tax rate for 2012 compared to 2011 and 2010 was primarily due to the effect of changes in foreign earnings, the expiration of R&D credit on December 31, 2011 and a $54.1 million income tax benefit in 2010 resulting from a change in our estimate of unrecognized tax benefits due to the taxpayer favorable ruling by the U.S. Court of Appeals for the Ninth Circuit in Xilinx Inc. v. Commissioner related to share-based compensation.

The effective tax rates for 2011 and 2010, differed from the federal statutory rate of 35% primarily due to the federal R&D credit, the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates and the change in our estimate of unrecognized tax benefits as noted above.
For a complete reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our income tax provision, see Note 14, Income Taxes, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report.

Segment Information

For a description of the products and services for each segment, see Item 1 Business, in Part I of this Report. A description of the measures included in segment contribution margin can also be found in Note 13, Segment Information, in Notes to the Consolidated Financial Statements in Item 8 of Part II of this Report. Select segment financial data for each of the three years in the period ended December 31, 2012 was as follows:

Platform Systems Division Segment
(in millions, except percentages)

	Years Ended December 31,						
	2012	2011	2010	2012 vs. 2011		2011 vs. 2010	
				$ Change	% Change	$ Change	% Change
PSD product revenues:							

Routing	$1,946.8	$2,166.0	$2,034.7	$(219.2)	(10)%	$131.3	6%
Switching	554.8	495.8	377.7	59.0	12%	118.1	31%
Security/Other	182.5	213.2	211.1	(30.7)	(14)%	2.1	1%
Total PSD product revenues	2,684.1	2,875.0	2,623.5	(190.9)	(7)%	251.5	10%
PSD service revenues	834.3	713.3	603.3	121.0	17%	110.0	18%
Total PSD revenues	$3,518.4	$3,588.3	$3,226.8	$(69.9)	(2)%	$361.5	11%
PSD contribution margin (*)	$1,409.4	$1,586.2	$1,477.9	$(176.8)	(11)%	$108.3	7%
Percentage of PSD revenues	40.1 %	44.2 %	45.8 %				

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(*) A reconciliation of contribution margin to income before taxes and noncontrolling interest can be found in Note 13, Segments, in Notes to Consolidated Financial Statement in Item 8 of this Report.

PSD product revenues decreased in 2012, compared to 2011, due to the decline in sales of our core and edge legacy routing and branch firewall products. The decline in sales was primarily attributable to lower spending by international customers and by content service provider customers in Americas, partially offset by an increase in sales of our switching products.

A majority of our service revenues are earned from customers that purchase our products and enter into contracts for support services. PSD service revenues increased in 2012, compared to 2011, primarily due to strong contract renewals for support services.

PSD contribution margin as a percent of PSD revenues decreased in 2012, compared to 2011, primarily due to a decline in revenues. The decrease was also attributable to a shift in product mix to lower margin products and out of period adjustments related to prototype development costs that were recorded in the third quarter of 2012, which increased R&D expense by $11.5 million. The decrease in contribution margin was partially offset by reduced costs as a result of a continuing focus on operational improvements and cost efficiencies.

PSD product revenues increased in 2011, compared to 2010, primarily due to growth in the enterprise and service provider markets across all regions. The increased demand for our routing and switching products was primarily driven by growing network demand attributable to increased reliance on digital devices connected to the network and, to a lesser extent, on the improved macroeconomic environment. PSD service revenues increased in 2011, compared to 2010, primarily due to strong contract renewals for support services.

PSD contribution margin as a percentage of PSD revenues decreased in 2011, compared to 2010, due to higher R&D spend to support our product portfolio at a higher rate than our revenue return.

Software Solutions Division Segment
(in millions, except percentages)

	Years Ended December 31,			2012 vs. 2011		2011 vs. 2010	
	2012	2011	2010	$ Change	% Change	$ Change	% Change
SSD product revenues:							
Security/Other	$493.3	$490.6	$539.4	$2.7	1%	$(48.8)	(9)%
Routing	84.7	112.7	95.8	(28.0)	(25)%	16.9	18%
Total SSD product revenues	578.0	603.3	635.2	(25.3)	(4)%	(31.9)	(5)%
SSD service revenues	269.0	257.1	231.3	11.9	5%	25.8	11%
Total SSD revenues	$847.0	$860.4	$866.5	$(13.4)	(2)%	$(6.1)	(1)%
SSD contribution margin (*)	$340.6	$345.0	$405.0	$(4.4)	(1)%	$(60.0)	(15)%
Percentage of SSD revenues	40.2%	40.1%	46.7%				

(*) A reconciliation of contribution margin to income before taxes and noncontrolling interest can be found in Note 13, Segments, in Notes to Consolidated Financial Statement in Item 8 of this Report.

SSD product revenues decreased in 2012, compared to 2011, primarily due to a decline in the sales of our legacy high-end firewall products and routing services products, partially offset by an increase in sales of our high-end SRX products. SSD service revenues increased in 2012, compared to 2011, primarily driven by strong contract renewals for support services.

SSD contribution margin as a percentage of SSD revenues remained relatively stable in 2012, compared to 2011, due to a shift in product mix to lower margin products offset by reduced costs as a result of our continued focus on operational improvements and cost efficiencies.

SSD product revenues decreased slightly in 2011, compared to 2010, primarily due to a decline in sales of our high-end firewall products, offset by increases in routing services products. SSD service revenues increased in 2011, compared to 2010, primarily due to increased revenue from new service contracts and strong contract renewals for support services.

SSD contribution margin as a percentage of SSD revenues in 2011, compared to 2010, decreased primarily due to a shift in the product mix toward lower margin products.

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Liquidity and Capital Resources

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

	As of December 31,			
	2012	2011	$ Change	% Change
Working capital	$2,178.7	$2,973.0	$(794.3)	(27)%
Cash and cash equivalents	$2,407.8	$2,910.4	$(502.6)	(17)%
Short-term investments	441.5	641.3	(199.8)	(31)%
Long-term investments	988.1	740.7	247.4	33%
Total cash, cash equivalents, and investments	3,837.4	4,292.4	(455.0)	(11)%
Long-term debt	999.2	999.0	0.2	—%
Net cash, cash equivalents, and investments	$2,838.2	$3,293.4	$(455.2)	(14)%

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by accounts payable, accrued liabilities, and short-term deferred revenue. Working capital decreased by $794.3 million in the year ended December 31, 2012, primarily due to a higher cash and cash equivalent balance at December 31, 2011 as a result of the issuance of the Notes in March 2011 and a decrease in accounts receivables, offset by decreases in accounts payable and short-term deferred revenue.

Summary of Cash Flows

As of December 31, 2012, our cash and cash equivalents decreased by $502.6 million from December 31, 2011. This decrease was mainly the result of cash used in our investing and financing activities of $596.7 million and $548.3 million, respectively, offset by $642.4 million generated from operating activities.

Operating Activities

Net cash provided by operating activities was $642.4 million, $986.7 million, and $812.3 million, for 2012, 2011, and 2010, respectively. Cash flows from operations decreased by $344.3 million in 2012, compared to 2011, primarily due to lower consolidated net income, higher taxes paid, timing of payments to our vendors, and a decrease in deferred revenue, offset by the timing of collections on our outstanding receivables.

Cash flows from operations increased by $174.4 million in 2011, compared to 2010, primarily due to the one-time litigation settlement payment of $169.3 million in 2010 which did not occur in 2011. The increase was partially offset by lower consolidated net income in 2011.

Investing Activities

Net cash used in investing activities was $596.7 million, $707.2 million, and $532.7 million, in 2012, 2011, and 2010, respectively. The decrease in net cash used in investing activities in 2012, compared to 2011, was primarily due to fewer purchases of investments, offset by higher spending on asset purchases, property and equipment, and acquisitions. During 2011, we invested the proceeds from the issuance of the Notes in available-for-sale securities and purchased property and equipment for the phased campus build-out of our corporate headquarters in Sunnyvale, CA. We expect our capital expenditures to decrease in 2013 as we complete our phased campus build-out.

Financing Activities

Net cash used in financing activities was $548.3 million and $72.4 million in 2012 and 2010, respectively, and net cash generated from financing activities was $819.0 million in 2011. The change from 2011 to 2012 was primarily due to the issuance of the Notes in 2011 and an increase in purchases and retirement of common stock and fewer proceeds from employee stock option exercises in 2012. We generated additional cash from financing activities in 2011 compared to 2010 primarily due to the issuance of the Notes, partially offset by the repurchase of our outstanding common stock. For further discussion of our long-term debt, see Note 10, Long-Term Debt and Financing, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report.

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Stock Repurchase Activities

In June 2012, our Board of Directors (the “Board”) approved a stock repurchase program (the "2012 Stock Repurchase Program"), which authorized us to repurchase up to $1.0 billion of our common stock. The 2012 Stock Repurchase Program was in addition to the stock repurchase program approved by the Board in February 2010 (the “2010 Stock Repurchase Program”), which authorized us to repurchase up to $1.0 billion of our common stock. The 2010 Stock Repurchase Program authorization was in addition to the stock repurchase program approved by the Board in March 2008, which also enabled us to repurchase up to $1.0 billion of our common stock.

We repurchased and retired approximately 35.8 million shares of our common stock at an average price of $18.05 per share for an aggregate purchase price of $645.6 million during the year ended December 31, 2012, under our Stock Repurchase Programs. As of December 31, 2012, there were $568.2 million authorized funds remaining under our Stock Repurchase Programs. We expect to continue to calibrate our buybacks in future quarters with market conditions at the time.

Restructuring

As of December 31, 2012, we accrued total restructuring charges of approximately $18.2 million related to our 2012 and 2011 Restructuring Plans, of which approximately $10.6 million related to severance costs that are expected to be paid through the third quarter of fiscal 2013. The remaining $7.6 million in facilities-related and other charges are expected to be paid through March 2018. During 2012, we made payments related to our restructuring plans totaling approximately $33.1 million for severance costs, facility closures, and contract terminations.

Deferred Revenue

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

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

	As of December 31,	
	2012	2011
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$256.9	$288.1
Distributor inventory and other sell-through items	138.4	134.0
Deferred gross product revenue	395.3	422.1
Deferred cost of product revenue	(99.4)	(136.9)
Deferred product revenue, net	295.9	285.2
Deferred service revenue	627.5	681.8
Total	$923.4	$967.0

Total deferred revenue decreased $43.6 million to $923.4 million as of December 31, 2012, compared to $967.0 million as of December 31, 2011. This is due to a decline in deferred service revenue driven by timing of revenue recognition, partially offset by an increase in net deferred product revenue.

Off-Balance Sheet Arrangements

As of December 31, 2012 and 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. It is not our business practice to enter into off-balance sheet arrangements. However, in the normal course of business, we enter into contracts consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. See Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for additional information regarding our guarantees.

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Contractual Obligations

Our principal commitments consist of obligations outstanding under operating leases, purchase commitments, debt, and other contractual obligations. See Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for additional information regarding our contractual commitments. The following table summarizes our principal contractual obligations as of December 31, 2012 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$266.1	$53.5	$82.9	$52.8	$76.9
Purchase commitments	158.6	158.6	—	—	—
Long-term debt	1,000.0	—	—	300.0	700.0
Interest payment on long-term debt	826.2	46.9	93.8	79.5	606.0
Other contractual obligations	179.3	172.2	7.1	—	—
Total	$2,430.2	$431.2	$183.8	$432.3	$1,382.9

Operating Leases

Our contractual obligations under operating leases primarily relate to our leased facilities under our non-cancelable operating leases. Rent payments are allocated to costs and operating expenses in our Consolidated Statements of Operations. We occupy approximately 2.6 million square feet worldwide under operating leases. The majority of our office space is in North America, including our corporate headquarters in Sunnyvale, California. Our longest lease expires on November 30, 2022.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, our contract manufacturers place non-cancelable, non-returnable ("NCNR") orders for components based on our build forecasts. The contract manufacturers use the components to build products based on our forecasts and on purchase orders we have received from our customers. Generally, we do not own the components and title to the product transfers from the contract manufacturers to us and immediately to our customers upon delivery at a designated shipment location. If the components go unused or the products go unsold for specified periods of time, we may incur carrying charges or obsolete materials charges for components that our contract manufacturers purchased to build products to meet our forecast or customer orders. As of December 31, 2012, we had accrued $27.7 million based on our estimate of such charges. Total purchase commitments as of December 31, 2012, consisted of $158.6 million of NCNR orders.

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

In March 2011, we issued $300.0 million aggregate principal amount of 3.10% senior notes due 2016 (the "2016 notes"), $300.0 million aggregate principal amount of 4.60% senior notes due 2021 (the "2021 notes"), and $400.0 million aggregate principal amount of 5.95% senior notes due 2041 (the "2041 notes" and, together with the 2016 notes and the 2021 notes the "Notes"). Interest on the Notes is payable in cash semiannually. We may redeem the Notes, at any time in whole or from time to time in part, subject to a make-whole premium, and, in the event of a change in control, the holders of the Notes may require us to repurchase for cash all or part of the Notes at a purchase price equal to 101% of the aggregate principle amount, plus accrued and unpaid interest, if any. The indenture that governs the Notes also contains various covenants, including limitations on our ability to incur liens or enter into sale-leaseback transactions over certain dollar thresholds. As of December 31, 2012, we were in compliance with all of our debt covenants. Based on our current outlook, we expect to be in compliance with our debt covenants over the next twelve months.

Other Contractual Obligations

Other contractual obligations primarily consisted of $124.2 million in indemnity-related and service related escrows, required by certain acquisitions completed in 2005, 2010, 2011, and 2012 and $55.1 million in campus build-out obligations.

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Tax Liabilities

In addition to the table above, tax liabilities include $112.4 million of long-term liabilities in the Consolidated Balance Sheets for unrecognized tax positions. At this time, we are 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

We have entered into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that our products infringe the intellectual property rights of a third-party. We also have financial guarantees consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. As of December 31, 2012 and 2011, we had $12.6 million and $19.9 million, respectively, in bank guarantees and standby letters of credit related to these financial guarantees.

Legal Proceedings

See Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, for additional information on liabilities that may arise from litigation and contingencies.

Liquidity and Capital Resource Requirements

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions and investments in strategic relationships that we have made or we may make in the future. Additionally, if we were to repurchase additional shares of our common stock under our Stock Repurchase Program, our liquidity may be impacted. As of December 31, 2012, 57% of our cash and investment balances are held outside of the U.S., which may be subject to U.S. taxes if repatriated.

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

We have been focused on managing our annual equity usage as a percentage of the common stock outstanding to align with peer group competitive levels and have made changes in recent years to reduce the number of shares underlying the equity awards we grant. Our intention for fiscal year 2012 was to target the number of shares underlying equity awards granted on an annual basis at 2.75% 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, with PSAs counted at their target amount). Based upon shares underlying our grants to date of options, RSUs, and PSAs, we achieved the goal for 2012. In fiscal year 2012, as a result of stock price weakness we increased our repurchase activity, and expect to continue to calibrate our buybacks in future quarters with market conditions at the time. We have also managed our equity compensation programs to reduce the overall number of shares subject to outstanding awards over the past two years. Notably, we have reduced the use of stock options in our equity compensation programs. The total number of common shares subject to our outstanding awards in connection with Juniper plans was 54.2 million, 58.2 million, and 63.5 million shares as of December 31, 2012, 2011, and 2010, respectively, reflecting a consecutive decline for the three years ended December 31, 2012.

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

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

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

- repurchases of our common stock;

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

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We maintain an investment portfolio of various holdings, types, and maturities. The value of our investments is subject to market price volatility. In addition, as of December 31, 2012, 57% of our cash, cash equivalents, and marketable securities are held outside of the U.S. Our marketable securities are generally classified as available-for-sale and, consequently, are recorded on our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss). These investments are also reviewed to identify and evaluate indications of potential other-than-temporary impairments as discussed in Note 4, Cash Equivalents and Investments, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, a decline in interest rates could have a material impact on interest income from our investment portfolio. We do not currently hedge these interest rate exposures. We recognized immaterial gains and losses during the years ended December 31, 2012, 2011, and 2010, related to the sales of our investments.

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The following tables presents hypothetical changes in fair value of our available-for-sale fixed income securities held as of December 31, 2012 and 2011 that are sensitive to changes in interest rates (in millions):

	Valuation of Securities Given an Interest Rate Decrease of X BPS			Fair Value as of December 31, 2012	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
Available-for-sale fixed income securities	$1,435.6	$1,428.4	$1,421.2	$1,414.1	$1,460.8	$1,399.6	$1,392.4

	Valuation of Securities Given an Interest Rate Decrease of X BPS			Fair Value as of December 31, 2011	Valuation of Securities Given an Interest Rate Increase of X BPS		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
Available-for-sale fixed income securities	$1,390.7	$1,384.7	$1,378.7	$1,372.7	$1,366.6	$1,360.6	$1,354.4

These instruments are not leveraged and are held for purposes other than trading. The modeling technique used measures the changes in fair value arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points (“BPS”), 100 BPS, and 150 BPS, which are representative of the historical movements in the Federal Funds Rate.

Foreign Currency Risk and Foreign Exchange Forward Contracts

Periodically, we use derivatives to hedge against fluctuations in foreign exchange rates. We do not enter into derivatives for speculative or trading purposes.

We use foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in non-functional currencies. These derivatives are carried at fair value with changes recorded in other (expense) income, net in our Consolidated Statements of Operations in the same period as the changes in the fair value from the re-measurement of the underlying assets and liabilities. These foreign exchange contracts have maturities of one year or less.

Our sales and costs of product revenues are primarily denominated in U.S. Dollars. Our cost of service revenue and operating expenses are denominated in U.S. Dollars as well as other foreign currencies including the British Pound, the Euro, Indian Rupee, and Japanese Yen. Approximately 77% of such costs and operating expenses are denominated in U.S. Dollars. Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions to reduce variability in cost of service revenue and operating expenses caused by non-U.S. Dollar denominated operating expense and costs. In designing a specific hedging approach, we consider several factors, including offsetting exposures, significance of exposures, costs associated with entering into a particular hedge instrument, and potential effectiveness of the hedge. These derivatives are designated as cash flow hedges and have maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and, upon occurrence of the forecasted transaction, is subsequently reclassified into the line item in the Consolidated Statements of Operations to which the hedged transaction relates. We record the ineffectiveness of the hedging instruments, which was immaterial during the years ended December 31, 2012, 2011, and 2010, respectively, in other (expense) income, net on our Consolidated

Statements of Operations. The change in operating expenses including cost of service revenue, R&D, sales and marketing, and G&A expenses, due to foreign currency fluctuations was approximately 1.5%, 1%, and 1% in 2012, 2011, and 2010, respectively.

If overall foreign currency exchange rates in comparison to the U.S. Dollar uniformly change by 10%, the amount of cash, cash equivalents and marketable securities we would report in U.S. Dollars as of December 31, 2012 and 2011 would change by less than 1%, assuming constant foreign currency cash, cash equivalents, and marketable securities balances.

Equity Price Risk

Our portfolio of publicly-traded equity securities and our non-qualified deferred compensation (“NQDC”) plan, which may also hold publicly-traded equity securities, are inherently exposed to equity price risk as the stock market fluctuates. Our publicly-traded equity securities are classified as available-for-sale securities on our Consolidated Balance Sheets. Investments under the NQDC plan are considered trading securities and are also reported at fair value on our Consolidated Balance Sheets. We do not purchase our publicly-traded equity securities with the intent to use them for speculative purposes. As of December 31, 2012 and 2011, the total investments under the NQDC plan were $12.6 million and $9.3 million, respectively. A

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hypothetical 30% adverse change on the total investments under the NQDC plan as of December 31, 2012 and 2011 would result in an immaterial loss.

We have also invested in privately-held companies. These investments are carried at cost. In 2012 and 2011, we recorded impairment charges of $20.0 million and $1.8 million, respectively, on our investments in privately-held companies that we judged to be other than temporary as discussed in Note 5, Fair Value Measurements, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Report. There were no such charges in 2010. The aggregate cost of our investments in privately-held companies was $32.0 million and $51.8 million as of December 31, 2012 and 2011, respectively.

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ITEM 8. Financial Statements and Supplementary Data

Index of Consolidated Financial Statements for the years ended December 31, 2012, 2011, and 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Juniper Networks, Inc.

We have audited the accompanying consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Juniper Networks, Inc., at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Juniper Networks, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 26, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Juniper Networks, Inc.

We have audited Juniper Networks, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Juniper Networks, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Juniper Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Juniper Networks, Inc. as of December 31, 2012, and 2011 and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012, of Juniper Networks, Inc. and our report dated February 26, 2013, expressed and unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 26, 2013

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Management's Report on Internal Control Over Financial Reporting

The management of Juniper Networks, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audits the Company's Consolidated Financial Statements, as stated in their report preceding this report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012.

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

	Years Ended December 31,		
	2012	2011	2010
Net revenues:			
Product	$3,262.1	$3,478.3	$3,258.7
Service	1,103.3	970.4	834.6
Total net revenues	4,365.4	4,448.7	4,093.3
Cost of revenues:			
Product	1,204.0	1,155.3	1,000.9
Service	452.6	424.8	350.6
Total cost of revenues	1,656.6	1,580.1	1,351.5
Gross margin	2,708.8	2,868.6	2,741.8
Operating expenses:			
Research and development	1,101.6	1,026.8	917.9
Sales and marketing	1,042.0	1,001.1	857.1
General and administrative	203.6	179.1	177.9
Amortization of purchased intangible assets	4.7	5.4	4.2
Restructuring and other charges	46.8	30.6	10.8
Acquisition-related charges	2.0	7.1	6.3
Total operating expenses	2,400.7	2,250.1	1,974.2
Operating income	308.1	618.5	767.6
Other (expense) income, net	(16.6)	(46.8)	10.6
Income before income taxes and noncontrolling interest	291.5	571.7	778.2
Income tax provision	105.0	146.7	158.8
Consolidated net income	186.5	425.0	619.4
Adjust for net loss (income) attributable to noncontrolling interest	—	0.1	(1.0)
Net income attributable to Juniper Networks	$186.5	$425.1	$618.4
Net income per share attributable to Juniper Networks common stockholders:			
Basic	$0.36	$0.80	$1.18
Diluted	$0.35	$0.79	$1.15
Shares used in computing net income per share:			
Basic	520.9	529.8	522.4
Diluted	526.2	541.4	538.8

See accompanying Notes to Consolidated Financial Statements

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

	Years Ended December 31,		
	2012	2011	2010
Consolidated net income	$186.5	$425.0	$619.4
Other comprehensive income (loss), net of tax:			
Available-for-sale securities:			
Unrealized gains	3.4	2.5	2.2
Reclassification adjustment for net gains included in net income	(1.4)	(3.8)	(1.7)
Net change in unrealized gains (losses) on available-for-sale securities, net of taxes of $0.5 for 2012(*)	2.0	(1.3)	0.5
Cash flow hedges:			
Unrealized gains (losses)	6.4	(7.9)	(3.0)
Reclassification adjustment for losses (gains) included in net income	7.5	(0.7)	2.1
Net change in gains (losses) on cash flow hedges, net of taxes of $0.8 for 2012(*)	13.9	(8.6)	(0.9)
Foreign currency translation adjustments	6.4	(6.4)	0.5
Other comprehensive income (loss), net of tax	22.3	(16.3)	0.1
Comprehensive income	208.8	408.7	619.5
Comprehensive loss (income) attributable to noncontrolling interest	—	0.1	(1.0)
Comprehensive income attributable to Juniper Networks	$208.8	$408.8	$618.5

(*) Taxes related to available-for-sale securities and cash flow hedges were zero for both 2011 and 2010.

See accompanying Notes to Consolidated Financial Statements

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

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$2,407.8	$2,910.4
Short-term investments	441.5	641.3
Accounts receivable, net of allowance for doubtful accounts of $9.5 for 2012 and 2011, respectively	438.4	577.4
Deferred tax assets, net	172.6	154.3
Prepaid expenses and other current assets	140.4	156.3
Total current assets	3,600.7	4,439.7
Property and equipment, net	811.9	598.6
Long-term investments	988.1	740.7
Restricted cash and investments	106.4	78.3
Purchased intangible assets, net	128.9	123.1
Goodwill	4,057.8	3,928.1
Other long-term assets	138.3	75.3
Total assets	9,832.1	9,983.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	209.3	324.9
Accrued compensation	279.3	223.0
Accrued warranty	29.7	28.3
Deferred revenue	693.5	712.6
Income taxes payable	7.8	12.5
Other accrued liabilities	202.4	165.4
Total current liabilities	1,422.0	1,466.7
Long-term debt	999.2	999.0
Long-term deferred revenue	229.9	254.4
Long-term income tax payable	112.4	108.5
Other long-term liabilities	69.1	65.5
Total liabilities	2,832.6	2,894.1
Commitments and contingencies (Note 16)		
Juniper Networks stockholders' equity:		
Convertible preferred stock, $0.00001 par value; 10.0 shares authorized; none issued and outstanding	—	—
Common stock, $0.00001 par value; 1,000.0 shares authorized; 508.4 shares and 526.4 shares issued and outstanding at December 31, 2012 and 2011, respectively	—	—
Additional paid-in capital	9,905.7	10,079.2
Accumulated other comprehensive income (loss)	4.7	(17.6)
Accumulated deficit	(2,911.4)	(2,972.4)
Total Juniper Networks stockholders' equity	6,999.0	7,089.2
Noncontrolling interest	0.5	0.5
Total stockholders' equity	6,999.5	7,089.7

Total liabilities and stockholders' equity	$9,832.1	$9,983.8

See accompanying Notes to Consolidated Financial Statements

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

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Consolidated net income	$186.5	$425.0	$619.4
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Non-cash portion of share-based compensation	242.7	217.8	177.8
Depreciation and amortization	187.0	169.3	155.3
Restructuring and other charges	99.7	30.6	10.8
Deferred income taxes	(18.2)	7.2	64.0
(Gain) loss on investments, net	(26.7)	0.3	(8.7)
Excess tax benefits from share-based compensation	(7.2)	(45.0)	(48.5)
Other non-cash charges	1.5	0.7	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	139.1	18.6	(129.2)
Prepaid expenses and other assets	(29.2)	28.5	(129.3)
Accounts payable	(121.2)	33.9	48.2
Accrued compensation	54.8	(32.2)	78.1
Accrued litigation settlements	—	—	(169.3)
Income tax payable	(7.5)	53.2	25.2
Other accrued liabilities	(5.3)	(3.4)	(9.4)
Deferred revenue	(53.6)	82.2	127.9
Net cash provided by operating activities	642.4	986.7	812.3
Cash flows from investing activities:			
Purchases of property and equipment	(348.7)	(266.3)	(185.3)
Purchases of trading investments	(4.1)	(5.2)	(2.8)
Purchases of available-for-sale investments	(1,496.5)	(2,297.3)	(1,577.7)
Proceeds from sales of available-for-sale investments	894.2	1,281.2	537.9
Proceeds from maturities of available-for-sale investments	559.7	645.4	1,086.6
Payment for business acquisitions, net of cash and cash equivalents acquired	(139.4)	(30.7)	(374.8)
Proceeds from the sales of privately-held investments	36.5	2.6	4.5
Purchases of privately-held investments	(12.2)	(35.7)	(8.7)
Purchase of licensed software	(65.3)	—	—
Changes in restricted cash	(20.9)	(1.2)	(12.4)
Net cash used in investing activities	(596.7)	(707.2)	(532.7)
Cash flows from financing activities:			
Proceeds from issuance of common stock	99.1	346.9	451.0
Purchases and retirement of common stock	(650.6)	(548.6)	(565.4)
Payment for capital lease obligation	(1.4)	—	—
Issuance of long-term debt, net	—	991.6	—
Change in customer financing arrangements	(2.6)	(15.9)	(3.5)
Excess tax benefits from share-based compensation	7.2	45.0	48.5
Return of capital to noncontrolling interest	—	—	(3.0)
Net cash (used in) provided by financing activities	(548.3)	819.0	(72.4)

Net (decrease) increase in cash and cash equivalents	(502.6)	1,098.5	207.2
Cash and cash equivalents at beginning of period	2,910.4	1,811.9	1,604.7
Cash and cash equivalents at end of period	$2,407.8	$2,910.4	$1,811.9
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$50.1	$34.4	$8.8
Cash paid (received) for income taxes, net	$118.7	$(2.1)	$155.7
Non-cash investing activities:			
Issuance of common stock and equity awards assumed in business acquisitions	$16.5	$—	$2.4
Property and equipment acquired under capital lease	$3.7	$—	$—
Licensed software acquired	$19.0	$—	$—

See accompanying Notes to Consolidated Financial Statements

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Juniper Networks, Inc.

Consolidated Statements of Changes in Stockholders' Equity
(In millions)

	Juniper Networks						
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total Stockholders' Equity
Balance at December 31, 2009	519.3	$ —	$ 9,060.1	$ (1.4)	$ (3,236.5)	$ 2.6	$ 5,824.8
Consolidated net income	—	—	—	—	618.4	1.0	619.4
Other comprehensive income, net	—	—	—	0.1	—	—	0.1
Return of capital to noncontrolling interest	—	—	—	—	—	(3.0)	(3.0)
Shares issued in connection with share-based compensation	25.8	—	451.2	—	—	—	451.2
Shares assumed in connection with business acquisitions	—	—	2.4	—	—	—	2.4
Repurchase and retirement of common stock and net issuances	(19.7)	—	(75.2)	—	(490.2)	—	(565.4)
Share-based compensation expense	—	—	177.8	—	—	—	177.8
Adjustment related to tax benefit from employee stock option plans	—	—	101.5	—	—	—	101.5
Balance at December 31, 2010	525.4	—	9,717.8	(1.3)	(3,108.3)	0.6	6,608.8
Consolidated net income (loss)	—	—	—	—	425.1	(0.1)	425.0
Other comprehensive loss, net	—	—	—	(16.3)	—	—	(16.3)
Shares issued in connection with share-based compensation	18.7	—	345.5	—	—	—	345.5
Repurchase and retirement of common stock and net issuances	(17.7)	—	(259.4)	—	(289.2)	—	(548.6)
Share-based compensation expense	—	—	217.8	—	—	—	217.8
Adjustment related to tax benefit from employee stock option plans	—	—	57.5	—	—	—	57.5
Balance at December 31, 2011	526.4	—	10,079.2	(17.6)	(2,972.4)	0.5	7,089.7
Consolidated net income	—	—	—	—	186.5	—	186.5
Other comprehensive income, net	—	—	—	22.3	—	—	22.3
Shares issued in connection with share-based compensation	12.2	—	99.2	—	—	—	99.2

Shares assumed in connection with business acquisitions	5.8	—	16.5	—	—	—	16.5
Repurchase and retirement of common stock and net issuances	(36.0)	—	(525.1)	—	(125.5)	—	(650.6)
Share-based compensation expense	—	—	242.7	—	—	—	242.7
Adjustment related to tax benefit from employee stock option plans	—	—	(6.8)	—	—	—	(6.8)
Balance at December 31, 2012	508.4	$ —	$ 9,905.7	$ 4.7	$ (2,911.4)	$ 0.5	$ 6,999.5

See accompanying Notes to Consolidated Financial Statements

Juniper Networks, Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Business and Basis of Presentation

Description of Business

Juniper Networks, Inc. (the “Company” or “Juniper”) designs, develops, and sells products and services that together provide customers with a high-performance network infrastructure built on simplicity, security, openness, and scale. The Company serves the high-performance networking requirements of global service providers, enterprises, governments, and research and public sector organizations that view the network as critical to their success.

Basis of Presentation

The consolidated financial statements, which include the Company and its wholly-owned subsidiaries, are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). All inter-company balances and transactions have been eliminated. Certain amounts in the prior year Consolidated Financial Statements have been reclassified to conform to the current year presentation.

Beginning in the first quarter of 2012, the Company aligned its organizational structure to focus on its platform and software strategy, which resulted in two reportable segments organized principally by product families: Platform Systems Division ("PSD") and Software Solutions Division ("SSD"). The Company has reclassified the segment data for the prior periods to conform to the current period's presentation. The segment change did not impact previously reported consolidated net revenues, operating income, net income, and net income per share. See Note 13, Segments, for further discussion of the Company's segment reorganization.

The Company previously owned a 60 percent interest in a joint venture with Nokia Siemens Networks B.V. (“NSN”). Given the Company's majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the noncontrolling investor's interests in the net assets and operations of the joint venture. In July 2011, NSN and the Company entered into an agreement to cease operation of and terminate the joint venture and subsequently NSN assumed the activities of the joint venture. The Company terminated the joint venture during the first quarter of 2013 and the termination is not expected to have a material effect on the Company's financial position or results of operations.

Note 2. Significant Accounting Policies

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes are reasonable under the circumstances, to determine the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent there are material differences between the Company's estimates and the actual results, the Company's future consolidated results of operation may be affected.

Fair Value

Fair value is defined as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it transacts, and considers assumptions that market participants would use when pricing the asset or liability. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. These inputs are valued using market based approaches.

Level 3 – Inputs are unobservable inputs based on the Company’s assumptions. These inputs, if any, are valued using internal financial models.

Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

All highly liquid investments purchased with a remaining maturity of three months or less are classified as cash and cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits with banks, highly liquid investments in money market funds, commercial paper, government securities, certificates of deposit, and corporate debt securities, which are readily convertible into cash.

Investments in Available-for-Sale and Trading Securities

The Company's investments in publicly-traded debt and equity securities are classified as available-for-sale. Available-for-sale investments are initially recorded at cost and periodically adjusted to fair value in the consolidated balance sheets. Unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income (loss). Realized gains and losses are determined based on the specific identification method and are reported in the consolidated statements of operations.

The Company recognizes an impairment charge for available-for-sale investments when a decline in the fair value of its investments below the cost basis is determined to be other than temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time the investment has been in a loss position, the extent to which the fair value has been less than the Company's cost basis, the investment's financial condition, and near-term prospects of the investee. If the Company determines that the decline in an investment's fair value is other than temporary, the difference is recognized as an impairment loss in its Consolidated Statements of Operations.

The Company's non-qualified compensation plan, which invests in mutual funds are classified as trading securities and reported at fair value in the Consolidated Balance Sheets. The realized and unrealized holding gains and losses are reported in the Consolidated Statements of Operations.

Privately-Held Investments

The Company has investments in privately-held companies. These investments are included in other long-term assets in the Consolidated Balance Sheets and are carried at cost, adjusted for any impairment, as the Company does not have a controlling interest and does not have the ability to exercise significant influence over these companies. These investments are inherently high risk as the market for technologies or products manufactured by these companies are usually early stage at the time of the investment by the Company and such markets may never be significant. The Company measures the fair value of privately-held investments using an analysis of the financial conditions and near term prospects of the investees, including recent financing activities and their capital structure. Realized gains and losses, if any, are reported in the Consolidated Statements of Operations.

Derivatives

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

The Company uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in non-functional currencies. These derivatives are carried at fair value with changes recorded in other (expense) income, net. Changes in the fair value of these derivatives are largely offset by re-measurement of the underlying assets and liabilities. Cash flows from such derivatives are classified as operating activities. These foreign exchange forward contracts have maturities of one year or less.

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

The Company also uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. These derivatives are designated as cash flow hedges and have maturities of less than one year. These derivatives are carried at fair value and the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during 2012, 2011, and 2010, in other (expense) income, net, on its Consolidated Statements of Operations. Cash flows from such hedges are classified as operating activities.

Concentrations

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable. The Company invests only in high-quality credit instruments and maintains its cash, cash equivalents and available-for-sale investments in fixed income securities with several high-quality institutions. Deposits held with banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and, therefore, bear minimal risk.

Generally, credit risk with respect to accounts receivable is diversified due to the number of entities comprising the Company's customer base and their dispersion across different geographic locations throughout the world. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains reserves for potential bad debt and historically such losses have been within management's expectations. During the years ended December 31, 2012 and 2010, Verizon Communications, Inc. ("Verizon") accounted for 10.3% and 10.4% of net revenues, respectively. During the year ended December 31, 2011, no single customer accounted for 10% or more of net revenues.

The Company relies on sole suppliers for certain of its components such as ASICs and custom sheet metal. Additionally, the Company relies primarily on a limited number of significant independent contract manufacturers for the production of all of its products. The inability of any supplier or manufacturer to fulfill supply requirements of the Company could negatively impact future operating results.

Inventory
Inventory consists primarily of component parts to be used in the manufacturing process and is stated at the lower of average cost or market. A provision is recorded when inventory is determined to be in excess of anticipated demand or obsolete, to adjust inventory to its estimated realizable value.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets of one and half years to five years for computers, equipment and software, five years for furniture and fixtures, seven to forty years for building and building improvements, and ten to forty years for land improvements. Leasehold improvements are amortized using the straight-line method over lease term, for a maximum of ten years. Construction in progress is related to the construction or development of property and equipment that have not yet been placed in service for their intended use. Depreciation for equipment commences once it is placed in service and depreciation for buildings and leasehold improvements commences once they are ready for their intended use.

Goodwill and Other Long-Lived Assets

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition that are not individually identified and separately recorded. The excess of the purchase price over the estimated fair value of net assets of businesses acquired in a business combination is recognized as goodwill. Goodwill and other intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually during the fourth quarter. Such goodwill and other intangible assets may also be tested for impairment between annual tests in the presence of impairment indicators such as, but not limited to: (a) a significant adverse change in legal factors or in the business climate; (b) a substantial decline in our market capitalization, (c) an adverse action or assessment by a regulator; (d) unanticipated competition; (e) loss of key personnel; (f) a more likely-than-not expectation of sale or disposal of a reporting unit or a significant portion thereof; (g) a realignment of our resources or restructuring of our existing businesses in response to changes to industry and market conditions; (h) testing for recoverability of a significant asset group within a reporting unit; or (i) higher discount rate used in the impairment analysis as impacted by an increase in interest rates.

The Company performs its annual goodwill impairment analysis at its reporting unit level, which is one level below its operating segment level during the fourth quarter of each year. The fair value of the Company's reporting units is determined using both the income and market valuation approaches. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. In the application of the income and market valuation approaches, the Company is required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results related to assumed variables could differ from these estimates.

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business, a significant decrease in the benefits realized from an acquired business, difficulties or delays in integrating the business or a significant change in the operations of an acquired business. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset, or asset group, to estimated undiscounted future cash flows expected to be generated by the asset, or asset group. An impairment charge is recognized by the amount by which the carrying amount of the asset, or asset group, exceeds its fair value.

The Company amortizes intangible assets with estimable useful lives on a straight-line basis over their useful lives.

Revenue Recognition

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

- Persuasive evidence of an arrangement exists. The Company generally relies upon sales contracts or agreements, and customer purchase orders to determine the existence of an arrangement.

- Delivery has occurred. The Company uses shipping terms and related documents, or written evidence of customer acceptance, when applicable, to verify delivery or performance.

- Sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on the payment terms and whether the sales price is subject to refund or adjustment.

- Collectability is reasonably assured. The Company assesses collectability based on creditworthiness of customers as determined by our credit checks and their payment histories. The Company records accounts receivable net of allowance for doubtful accounts, estimated customer returns, and pricing credits.

When sales arrangements contain multiple elements and software and non-software components that function together to deliver the tangible products' essential functionality, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on either vendor-specific objective evidence (“VSOE”) if available, third-party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”) if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating largely interchangeable competitor products or services in stand-alone sales to similarly situated customers. However, as the Company's products contain a significant element of proprietary technology and its solutions offer substantially different features and functionality, the comparable pricing of third-party products with similar functionality typically cannot be obtained. ESP is established considering multiple factors including, but not limited to pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies, and industry technology lifecycles.

In multiple element arrangements where software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the residual method when VSOE of fair value of the undelivered items exists. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specific return or refund privileges.

The Company records reductions to revenue for estimated product returns and pricing adjustments, such as rebates and price protection, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns and price protection credits, specific criteria outlined in rebate agreements, and other factors known at the time. A portion of the Company's sales is made through distributors under agreements allowing for pricing credits or rights of return. Product revenue on sales made through these distributors is recognized upon sell-through as reported by the distributors to the Company. Deferred revenue on shipments to distributors reflects the effects of distributor pricing credits and the amount of gross margin expected to be realized upon sell-through. Deferred revenue is recorded net of the related product costs of revenue.

Service revenues include revenue from maintenance, training, and professional services. Maintenance is offered under renewable contracts. Revenue from maintenance service contracts is deferred and recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as services are completed or ratably over the contractual period, which is generally one year or less.

The Company sells certain interests in accounts receivable on a non-recourse basis as part of customer financing arrangements primarily with one major financing company. Cash received under this arrangement in advance of revenue recognition is recorded as a secured borrowing within other current liabilities.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews its receivables that remain outstanding past their applicable payment terms and establishes an allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Warranty Reserves

The Company generally offers a one-year warranty on all of its hardware products and a 90-day warranty on the media that contains the software embedded in the products. Warranty costs are recognized as part of the Company's cost of sales based on associated material costs, labor costs, and overhead at the time revenue is recognized. Material costs are estimated primarily based upon the historical costs to repair or replace product returns within the warranty period. Labor and overhead costs are estimated primarily based upon historical trends in the cost to support customer cases within the warranty period.

Contract Manufacturer Liabilities

The Company establishes a liability for non-cancelable, non-returnable ("NCNR") purchase commitments with its contract manufacturers for carrying charges, quantities in excess of its demand forecasts, or obsolete material charges for components purchased by the contract manufacturers to meet the Company’s demand forecast or customer orders. The demand forecasts are based upon historical trends and analysis from the Company's sales and marketing organizations, adjusted for overall market conditions.

Research and Development

Costs to research, design, and develop the Company's products are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company's products are released soon after technological feasibility has been established. As a result, costs incurred between achieving technological feasibility and product general availability have not been significant.

Advertising

Advertising costs are charged to sales and marketing expense as incurred. Advertising expense was $20.0 million, $17.2 million, and $17.1 million, for 2012, 2011, and 2010, respectively.

Foreign Currency Translations

Assets and liabilities of foreign operations with non-U.S. Dollar functional currency are translated to U.S. Dollars using exchange rates in effect at the end of the period. Revenue and expenses are translated to U.S. Dollars using average exchange rates for the period. The resulting translation adjustments are included in the Company's Consolidated Balance Sheets in the stockholders' equity section as a component of accumulated other comprehensive income (loss).

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss related to an asset, or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such accruals should be adjusted and whether new accruals are required.

Share-Based Compensation

The Company utilizes the Black-Scholes-Merton ("BSM") option-pricing model to estimate the fair value of its stock options and ESPP shares. The Company determines the fair value of its restricted stock units ("RSUs"), restricted stock awards ("RSAs"), and performance share awards ("PSAs") based on the closing market price of the Company's common stock on the date of grant. Share-based compensation expense is based on the fair value the underlying awards and amortized on a straight-line basis, net of estimated forfeitures. With respect to PSAs, that generally vest after three years, for the portion of the award attributable to each performance year, the Company recognizes PSA expense on a straight-line basis over the remaining vesting period starting in the period in which the annual performance targets are set for each such performance year.

The BSM model requires various highly subjective assumptions that represent management's best estimates of volatility, risk-free interest rate, expected life, and dividend yield. The expected volatility is based on the implied volatility of market-traded options on the Company's common stock, adjusted for other relevant factors including historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The expected life of a stock option award is based on historical experience.

Provision for Income Taxes

Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized.

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes.

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Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company intends to adopt this standard in the first quarter of 2013 and does not expect the adoption will have a material impact on its consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, Topic 350 - Intangibles - Goodwill and Other ("ASU 2012-02"), which amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. An entity would not be required to determine the fair value of the indefinite-lived intangible unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company intends to adopt this standard in the first quarter of 2013 and does not expect the adoption will have an impact on its consolidated results of operations or financial condition.

Note 3. Business Combinations

The Company's Consolidated Financial Statements include the operating results of acquired businesses 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, both individually and in aggregate, is not material. Additional information 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.

The Company completed three business combinations in 2012, two business combinations in 2011, and four business combinations in 2010 for either cash consideration and/or stock related to the fair value of vested share-based awards assumed of approximately $187.3 million, $30.5 million, and $394.5 million, respectively. The following table presents the purchase consideration allocations for these acquisitions based upon their acquisition-date fair values, including cash and cash equivalents acquired (in millions):

	2012 Acquisitions	2011 Acquisitions	2010 Acquisitions
Net tangible assets acquired	$3.5	$1.7	$8.8
Intangible assets acquired	54.1	28.4	116.5
Goodwill	129.7	0.4	269.2
Total	$187.3	$30.5	$394.5

The Company recognized $2.0 million, $9.6 million, and $6.3 million of acquisition-related costs during the years ended December 31, 2012, 2011, and 2010, respectively. These acquisition-related charges were expensed in the period incurred and reported in the Company's Consolidated Statements of Operations within cost of revenues and operating expense.

The goodwill recognized for the 2012 and 2011 acquisitions was primarily attributable to expected synergies and was not deductible for U.S. federal income tax purposes. Approximately $88.9 million of the acquired goodwill from a 2010 acquisition was deductible for income tax purposes.

Fiscal 2012 Acquisitions

Contrail Systems Inc.

On December 14, 2012, the Company acquired the remaining ownership interest in Contrail Systems, Inc. ("Contrail"), increasing its ownership from 12% to 100%, in a cash and stock transaction for approximately $91.7 million. Contrail, a privately-held software networking company, provides software-defined networking solutions technology that augments Juniper's portfolio of products and services.

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Notes to Consolidated Financial Statements (Continued)

The aggregate consideration of $91.7 million was allocated as follows: net tangible assets acquired of $3.6 million, including cash and cash equivalents of $8.6 million; intangible assets of $17.4 million; and recognized goodwill of $70.7 million, which was assigned to the Company's PSD segment.
The Company previously accounted for its investment in Contrail at cost, which was $3.0 million prior to the acquisition. As of the acquisition date, the fair value of the Company's previous equity interest in Contrail was remeasured to its fair value of $17.7 million, which was based upon adjustments market participants would consider when estimating the fair value of the previously held interest in Contrail. This resulted in a $14.7 million gain, which was reported within other (expense) income, net in the Consolidated Statements of Operations.
Mykonos Software, Inc.

On February 13, 2012, the Company acquired 100% of the equity securities of Mykonos Software, Inc. ("Mykonos") for $82.6 million in cash. The acquisition of Mykonos extended Juniper Networks' security portfolio with an intrusion deception system capable of detecting an attacker before an attack is in process. In connection with this acquisition, the Company acquired net tangible liabilities of $0.2 million, intangible assets of $24.3 million, and recognized goodwill of $58.5 million, which was assigned to the Company's SSD segment.
BitGravity, Inc.

On March 8, 2012, the Company acquired a source code license, patent joint-ownership, and employees related to the service management layer of BitGravity, Inc.'s ("BitGravity") Content Delivery Network ("CDN") technology for $13.0 million in cash. In connection with this acquisition, the Company acquired net tangible assets of $0.1 million, intangible assets of $12.4 million, and recognized goodwill of $0.5 million, which was assigned to the Company's SSD segment.

Intangible Assets Acquired

The following table presents details of the intangible assets acquired for the business combinations completed during 2012 as of their respective acquisition dates (in millions, except years):

	Contrail Weighted Average Estimated Useful Life (In Years)	Amount	Mykonos Weighted Average Estimated Useful Life (In Years)	Amount	BitGravity Weighted Average Estimated Useful Life (In Years)	Amount
Existing technology	—	$—	6	$19.3	3	$12.4
Trade name and trademarks	—	—	7	1.0	—	—
In-process research and development	N/A	17.4	N/A	4.0	—	—
Total		$17.4		$24.3		$12.4

Acquired in-process research and development (“IPR&D”) consists of existing research and development projects at the time of the acquisition. Projects that qualify as IPR&D assets represent those that have not yet reached technological feasibility and have no alternative future use. After initial recognition, acquired IPR&D assets are accounted for as indefinite-lived intangible assets. Development costs incurred after acquisition on acquired development projects are expensed as incurred. Upon completion of development, acquired IPR&D assets are considered amortizable intangible assets. If the IPR&D project is abandoned, the Company writes off the related purchased intangible asset in the period it is abandoned.
Fiscal 2011 Acquisitions

OpNext

On February 9, 2011, the Company acquired certain IP assets of OpNext for $26.0 million in cash, which was accounted for as a business combination. The acquisition of OpNext's ASIC technology furthers Juniper's next-generation development of converged packet optical solutions for the Company's service provider customers. In connection with this acquisition, the Company acquired the fair value of intangible assets of $25.7 million and recognized goodwill of $0.3 million.

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Brilliant
On February 18, 2011, the Company acquired certain assets, including all the intellectual property ("IP"), of Brilliant, a supplier of next-generation packet-based, network synchronization equipment and monitoring solutions, for $4.5 million in cash. This IP assists the Company in extending its market position by delivering solutions that offer greater flexibility for service providers as they continue to deploy 3G and 4G networks. In connection with this acquisition, the Company acquired net tangible assets of $1.7 million, intangible assets of $2.7 million, and recognized goodwill of $0.1 million.
Intangible Assets Acquired

The following table presents details of the intangible assets acquired for the business combinations completed during 2011 as of their respective acquisition dates (in millions, except years):

	OpNext Weighted Average Estimated Useful Life (In Years)	Amount	Brilliant Weighted Average Estimated Useful Life (In Years)	Amount
Existing or core technology	10	$20.6	5	$1.3
Support agreements and related relationships	4	5.1	—	—
Patents	—	—	5	1.4
Total		$25.7		$2.7

Fiscal 2010 Acquisitions

Ankeena Networks, Inc.

On April 19, 2010, the Company acquired the remaining ownership interest in Ankeena Networks, Inc. (“Ankeena”), increasing its ownership from 7.7% to 100%, in a cash and stock transaction for $68.9 million. The acquisition of Ankeena, a privately-held provider of new media infrastructure technology, provides the Company with strong video delivery capabilities, as Ankeena's products optimize web-based video delivery, provides key components of a content delivery network architecture/solution, improves consumers' online video experience, and reduces service provider and carrier service provider infrastructure costs for providing web-based video.
The aggregate consideration of $68.9 million was allocated as follows: net tangible assets acquired of $3.6 million, including cash and cash equivalents of $2.3 million; intangible assets of $12.2 million; and recognized goodwill of $53.1 million.
The Company previously accounted for its investment in Ankeena at cost, which was $2.0 million prior to the acquisition. As of the acquisition-date, the fair value of the Company's previous equity interest in Ankeena was remeasured to its fair value of $5.2 million, which was based upon adjustments market participants would consider when estimating the fair value of the previously held equity interest in Ankeena. This resulted in a gain of $3.2 million, which was reported within other (expense) income, net in the Consolidated Statements of Operations.
SMobile Systems, Inc.

On July 30, 2010, the Company acquired 100% of the equity securities of SMobile Systems, Inc. ("SMobile"), a privately-held software company focused solely on smartphone and tablet security solutions for the enterprise, service provider, and consumer markets for $69.5 million in cash. The acquisition of SMobile allows the Company to extend its security focus through integration of SMobile's product portfolio with Junos®Pulse. In connection with the acquisition of SMobile, the Company acquired net tangible liabilities of $5.2 million, including cash and cash equivalents of $0.4 million, intangible assets of $26.6 million, and recognized goodwill of $48.1 million.

Altor

On December 6, 2010, the Company acquired the remaining ownership interest in Altor, increasing its ownership from 5.0% to 100%, in a cash transaction for $104.0 million. The acquisition of Altor, a privately-held provider of virtualization security, provides the Company with data center and cloud security solutions, including products that optimize web-based video delivery, provides key components of a content delivery network architecture/solution, improves consumers' online video experience, and reduces service provider and carrier service provider infrastructure costs for providing web-based video.

The aggregate consideration of $104.0 million was allocated as follows: net tangible assets acquired of $4.5 million, including cash and cash equivalents of $6.4 million; intangible assets of $21.3 million; and recognized goodwill of $78.2 million.

The Company previously accounted for its investment in Altor at cost, which was $2.0 million prior to the acquisition. As of the acquisition-date, the fair value of the Company's previous equity interest in Altor was remeasured to its fair value of $4.1 million, which was based upon adjustments market participants would consider when estimating the fair value of the previously held equity interest in Altor. This resulted in a gain of $2.1 million, which was reported within other (expense) income, net in the Consolidated Statements of Operations.

Trapeze Networks

On December 16, 2010, the Company acquired 100% of the equity securities of Trapeze Networks ("Trapeze"), a subsidiary of Belden Inc. and a provider of enterprise wireless local area network ("WLAN") solutions for $152.1 million in cash. The acquisition made WLAN infrastructure a key part of Juniper's portfolio and accelerates our growth in the enterprise market. In connection with the acquisition of Trapeze, the Company acquired net tangible assets of $5.9 million, including cash and cash equivalents of $0.8 million, intangible assets of $56.4 million, and recognized goodwill of $89.8 million.

Intangible Assets Acquired

The following table presents details of the intangible assets acquired for the business combinations completed during 2010 as of their respective acquisition dates (in millions, except years):

	Ankeena Weighted Average Estimated Useful Life (In Years)	Amount	SMobile Weighted Average Estimated Useful Life (In Years)	Amount	Altor Weighted Average Estimated Useful Life (In Years)	Amount	Trapeze Weighted Average Estimated Useful Life (In Years)	Amount
Existing technology	4	$9.0	5	$24.3	6	$13.9	5	$45.0
In-process research and development	—	—	—	—	N/A	2.8	—	—
Core technology	4	3.2	—	—	6	4.6	—	—
Customer contracts and related relationships	—	—	6	2.1	—	—	7	8.6
Support agreements and related relationships	—	—	6	0.1	—	—	7	2.6
Non-compete agreements	—	—	2	0.1	—	—	—	—
OEM customer contracts	—	—	—	—	—	—	2	0.2
Total		$12.2		$26.6		$21.3		$56.4

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Note 4. Cash Equivalents and Investments

Investments in Available-for-Sale and Trading Securities

The following tables summarize the Company's unrealized gains and losses and fair value of investments designated as available-for-sale and trading securities as of December 31, 2012 and December 31, 2011 (in millions):

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

(*) Balance includes the Company's non-qualified deferred compensation plan assets. For additional information, see Note 12, Employee Benefits Plans, under the section Deferred Compensation Plan.

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2011				
Cash equivalents:				
Commercial paper	$10.0	$—	$—	$10.0
Government-sponsored enterprise obligations	24.5	—	—	24.5
Money market funds	1,371.7	—	—	1,371.7
Total cash equivalents	1,406.2	—	—	1,406.2
Restricted investments:				
Money market funds	75.1	—	—	75.1
Mutual funds	2.6	—	—	2.6
Total restricted investments	77.7	—	—	77.7
Fixed income securities:				
Asset-backed securities	124.7	0.1	(0.1)	124.7
Certificates of deposit	31.8	—	—	31.8
Corporate debt securities	508.2	1.0	(0.5)	508.7
Government-sponsored enterprise obligations	406.3	0.3	(0.1)	406.5
U.S. government securities	301.1	—	(0.1)	301.0
Total fixed income securities	1,372.1	1.4	(0.8)	1,372.7
Total available-for-sale securities	2,856.0	1.4	(0.8)	2,856.6
Trading securities in mutual funds(*)	9.3	—	—	9.3
Total	$2,865.3	$1.4	$(0.8)	$2,865.9
Reported as:				
Cash equivalents	$1,406.2	$—	$—	$1,406.2
Restricted investments	77.7	—	—	77.7
Short-term investments	640.9	0.4	—	641.3
Long-term investments	740.5	1.0	(0.8)	740.7
Total	$2,865.3	$1.4	$(0.8)	$2,865.9

(*) Balance includes the Company's non-qualified deferred compensation plan assets. For additional information, see Note 12, Employee Benefits Plans, under the section Deferred Compensation Plan.

The following table presents the maturities of the Company's short-term and long-term fixed income securities as of December 31, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	$425.7	$0.3	$—	$426.0
Due between one and five years	985.6	2.7	(0.2)	988.1
Total	$1,411.3	$3.0	$(0.2)	$1,414.1

The Company had 98 and 135 investments in unrealized loss positions as of December 31, 2012 and December 31, 2011, respectively. The gross unrealized losses related to these investments were primarily due to changes in market interest rates. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company aggregates its investments by category and length of time the securities have been in a continuous unrealized loss position to facilitate its evaluation. For the available-for-sale debt securities that have unrealized losses, the Company determines that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of December 31, 2012, 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 year ended December 31, 2012, 2011, and 2010. For available-for-sale equity securities that have unrealized losses, the Company determined that there was no indication of other-than-temporary impairments as of December 31, 2012. This

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determination was 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 years December 31, 2012, 2011, and 2010, the Company did not recognize other-than-temporary impairments associated with these investments.

The following tables present the Company's available-for-sale investments that were in an unrealized loss position as of December 31, 2012 and December 31, 2011 (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 December 31, 2012						
Fixed income securities:						
Asset-backed securities (*)	$55.1	$(0.1)	$0.1	$—	$55.2	$(0.1)
Certificates of deposit	0.3	—	—	—	0.3	—
Commercial paper	10.0	—	—	—	10.0	—
Corporate debt securities	116.0	(0.1)	—	—	116.0	(0.1)
Government-sponsored enterprise obligations	30.0	—	—	—	30.0	—
U.S. government securities	68.2	—	—	—	68.2	—
Total fixed income securities	279.6	(0.2)	0.1	—	279.7	(0.2)
Publicly-traded equity securities	2.9	(0.1)	—	—	2.9	(0.1)
Total available-for sale securities	$282.5	$(0.3)	$0.1	$—	$282.6	$(0.3)

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2011						
Fixed income securities:						
Asset-backed securities (*)	$76.8	$(0.1)	$0.3	$—	$77.1	$(0.1)
Corporate debt securities	189.9	(0.5)	—	—	189.9	(0.5)
Government-sponsored enterprise obligations	146.0	(0.1)	—	—	146.0	(0.1)
U.S. government securities	186.7	(0.1)	—	—	186.7	(0.1)
Total fixed income securities	599.4	(0.8)	0.3	—	599.7	(0.8)
Total available-for-sale securities	$599.4	$(0.8)	$0.3	$—	$599.7	$(0.8)

(*) Balance greater than 12 months includes investments that were in an immaterial unrealized loss position as of December 31, 2011.

There were no material realized gains or losses from the sale of available-for-sale and trading securities in 2012, 2011, and 2010.

Restricted Cash and Investments

The Company classifies cash and investments as restricted cash and investments on its Consolidated Balance Sheets and designated as available for sale securities for: (i) amounts held in escrow accounts, as required by certain acquisitions completed between 2005 and 2012; (ii) the India Gratuity Trust and Israel Retirement Trust, which cover statutory severance obligations in the event of termination of any of the Company's India and Israel employees, respectively; and (iii) the Directors and Officers ("D&O") indemnification trust.

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

	As of December 31,	
	2012	2011
Restricted cash	$0.8	$0.6
Restricted investments	105.6	77.7
Total restricted cash and investment	$106.4	$78.3

Privately-Held Investments

As of December 31, 2012 and December 31, 2011, the carrying values of the Company’s privately-held investments of $32.0 million and $51.8 million, respectively, were included in other long-term assets in the Consolidated Balance Sheets.

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

During the years ended December 31, 2012 and December 31, 2011, the Company determined that certain privately-held investments were other-than-temporarily impaired, which resulted in impairment charges of $20.0 million and $1.8 million, respectively, and were recorded within other (expense) income, net in the Consolidated Statements of Operations. In 2010, the Company determined there were no impairments to its privately-held investments.

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Note 5. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables provide a summary of assets and liabilities measured at fair value on a recurring basis and as reported in the Consolidated Balance Sheets (in millions):

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

Total liabilities measured at fair value	$—	$0.1	$—	$0.1

(1) Balance includes$102.6 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisitions related escrows.
(2) Balance relates to the restricted investments measured at fair market value of the Company's India Gratuity Trust.
(3) Balance relates to investments measured at fair value related to the Company's non-qualified deferred compensation plan assets.

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

	Fair Value Measurements at December 31, 2011 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	$—	$124.7	$—	$124.7
Certificate of deposit	—	31.8	—	31.8
Commercial paper	—	10.0	—	10.0
Corporate debt securities	—	508.7	—	508.7
Government-sponsored enterprise obligations	314.2	116.8	—	431.0
Money market funds (1)	1,446.8	—	—	1,446.8
Mutual funds (2)	1.0	1.6	—	2.6
U.S. government securities	149.3	151.7	—	301.0
Total available-for-sale securities	1,911.3	945.3	—	2,856.6
Trading securities in mutual funds (3)	9.3	—	—	9.3
Derivative assets:				
Foreign exchange contracts	—	0.4	—	0.4
Total assets measured at fair value	$1,920.6	$945.7	$—	$2,866.3
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	$—	$9.6	$—	$9.6
Total liabilities measured at fair value	$—	$9.6	$—	$9.6
Total assets measured at fair value, reported as:				
Cash equivalents	$1,371.7	$34.5	$—	$1,406.2
Short-term investments	168.9	472.4	—	641.3
Long-term investments	303.9	436.8	—	740.7
Restricted investments	76.1	1.6	—	77.7
Prepaid expenses and other current assets	—	0.4	—	0.4
Total assets measured at fair value	$1,920.6	$945.7	$—	$2,866.3
Total liabilities measured at fair value, reported as:				
Other accrued liabilities	$—	$9.6	$—	$9.6
Total liabilities measured at fair value	$—	$9.6	$—	$9.6

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(1) Balance includes $75.1 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisition related escrows.

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

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

The Company's Level 2 available-for-sale fixed income securities are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, or alternative pricing sources with reasonable levels of price transparency which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets. The Company's policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During the years ended December 31, 2012 and December 31, 2011, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain of the Company's assets, including intangible assets, goodwill, and privately-held investments, are measured at fair value on a nonrecurring basis if impairment is indicated.
Privately-held investments, which are normally carried at cost, are measured at fair value due to events and circumstances that the Company identified as significantly impacting the fair value of the investments. The Company measured the fair value of its privately-held investments using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and their capital structure. During the year ended December 31, 2012, privately-held investments with a carrying value of $20.0 million were measured at fair value resulting in an impairment charge of $20.0 million. During the year ended December 31, 2011, privately-held investments with a carrying value of $2.2 million were measured at fair value resulting in an impairment charge of $1.8 million. These investments were classified as Level 3 assets due to the absence of quoted market prices and inherent lack of liquidity. During the year ended December 31, 2010, privately-held investments with a carrying value of $0.8 million were measured at fair value, but did not result in an impairment charge.
During the year ended December 31, 2012, certain purchased intangible assets with a carrying value of $5.4 million were measured at fair value resulting in an impairment charge of $5.4 million and recorded within cost of revenues on the Consolidated Statements of Operations. The Company measured the fair value of these assets primarily using discounted cash flow projections. Purchased intangible assets were classified as Level 3 assets, due to the absence of quoted market prices. See Note 7, Goodwill and Purchased Intangibles Assets, for further information. There were no such assets measured at fair value on a nonrecurring basis during the year ended December 31, 2011 and December 31, 2010.
The Company had no liabilities measured at fair value on a nonrecurring basis during December 31, 2012 and 2011, and 2010.

Assets and Liabilities Not Measured at Fair Value

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

Note 6. Derivative Instruments

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

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

	As of December 31,	
	2012	2011
Cash flow hedges	$85.8	$184.3
Non-designated derivatives	112.8	122.7
Total	$198.6	$307.0

Cash Flow Hedges

The Company can use foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of services and operating expenses. The derivatives are intended to hedge the U.S. Dollar equivalent of the Company's planned cost of services and operating expenses denominated in foreign currencies.

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

As of December 31, 2012 and December 31, 2011, the total fair value of the Company’s derivative assets recorded in other current assets on the Consolidated Balance Sheets was $3.5 million and $0.4 million, respectively. As of December 31, 2012 and December 31, 2011, the total fair value of the Company’s derivative liabilities recorded in other accrued liabilities on the Consolidated Balance Sheets was $0.1 million and $9.6 million, respectively.

During the year ended December 31, 2012, the Company recognized a gain of $7.2 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of $7.5 million from other comprehensive income to operating expense in the Consolidated Statements of Operations. During the year ended December 31, 2011, the Company recognized a loss of $7.9 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a gain of $0.7 million from other comprehensive income to operating expense in the Consolidated Statements of Operations. During the year ended December 31, 2010, the Company recognized a loss of $3.0 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of $2.1 million from other comprehensive income to operating expense in the Consolidated Statements of Operations.

The ineffective portion of the Company's derivative instruments recognized in its Consolidated Statements of Operations was not material during the years ended December 31, 2012, 2011, and 2010.

Non-Designated Derivatives

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

The Company recognized a net gain of $1.0 million, a gain of $1.5 million, and a loss of $0.3 million on non-designated derivative instruments within other (expense) income, net, in its Consolidated Statements of Operations during the years ended December 31, 2012, 2011, and 2010, respectively.

Note 7. Goodwill and Purchased Intangible Assets

Goodwill

The following table presents the goodwill activity allocated to the Company's reportable segments (in millions):

	PSD	SSD	Total
December 31, 2010	$1,793.5	$2,134.3	$3,927.8
Additions due to business combinations	0.4	—	0.4
Adjustments to goodwill	1.7	(1.8)	(0.1)
December 31, 2011	1,795.6	2,132.5	3,928.1
Additions due to business combinations	70.7	59.6	130.3
Adjustments to goodwill	—	(0.6)	(0.6)
December 31, 2012	$1,866.3	$2,191.5	$4,057.8

In connection with the Company's 2012 organizational realignment, certain prior period amounts were reclassified to conform to the current period's segment presentation. The adjustments to goodwill during the year ended December 31, 2011, were related to adjustments in net tangible assets assumed from certain businesses acquired in

2010 and 2011. The additions to goodwill in 2012 were based on the purchase price allocations of the acquisitions completed during 2012. The Company also recorded adjustments to net tangible assets assumed related to the acquisitions completed in 2012. There were no impairments to goodwill during the years ended December 31, 2012, 2011, and 2010.

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

Purchased Intangible Assets

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

	Gross	Accumulated Amortization	Accumulated Impairment and Other Charges	Net
As of December 31, 2012				
Intangible assets with finite lives:				
Technologies and patents	$554.1	$(425.0)	$(30.5)	$98.6
Customer contracts, support agreements, and related relationships	74.3	(59.2)	(2.2)	12.9
Other	18.8	(18.8)	—	—
Total intangible assets with finite lives	647.2	(503.0)	(32.7)	111.5
IPR&D with indefinite lives	17.4	—	—	17.4
Total purchased intangible assets	$664.6	$(503.0)	$(32.7)	$128.9
As of December 31, 2011				
Intangible assets with finite lives:				
Technologies and patents	$515.5	$(396.4)	$(14.4)	$104.7
Customer contracts, support agreements, and related relationships	73.3	(55.6)	(2.2)	15.5
Other	18.8	(18.7)	—	0.1
Total intangible assets with finite lives	607.6	(470.7)	(16.6)	120.3
IPR&D with indefinite lives	2.8	—	—	2.8
Total purchased intangible assets	$610.4	$(470.7)	$(16.6)	$123.1

During the years ended December 31, 2012, 2011, and 2010, the Company added $54.1 million, $28.4 million, $116.5 million of purchased intangible assets as a result of acquisitions completed during 2012, 2011, and 2010, respectively. Refer to Note 3, Business Combinations, for further details.

During the year ended December 31, 2012, $6.8 million of acquired IPR&D accounted for as indefinite lived assets reached technological feasibility and were reclassified as amortizable finite-lived assets. Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled $32.3 million, $27.1 million, and $8.6 million for the years ended December 31, 2012, 2011, and 2010, respectively.

In connection with the restructuring plan in 2012 discussed in Note 9, Restructuring and Other Charges, the Company assessed the impairment and remaining useful life of certain intangible assets and determined intangible assets of $5.4 million were impaired and written-down to their fair value of zero and other intangible assets of $10.7 million will no longer be utilized. As a result, the Company recorded $16.1 million in charges related to these items during the year ended December 31, 2012, which are included in cost of revenues in the Consolidated Statements of Operations and recorded in the Company's SSD segment.

As of December 31, 2012, the estimated future amortization expense of purchased intangible assets with finite lives is as follows (in millions):

Years Ending December 31,	Amount

2013	$28.6
2014	28.5
2015	24.9
2016	12.2
2017	8.5
Thereafter	8.8
Total	$111.5

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Notes to Consolidated Financial Statements (Continued)

Note 8. Other Financial Information

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

	As of December 31,	
	2012	2011
Inventories, net		
Production materials	$54.6	$52.4
Finished goods	7.9	16.7
Total inventories, net	$62.5	$69.1

During the year ended December 31, 2012, the Company recorded charges of $44.3 million, to cost of revenues, representing inventory held in excess of forecasted demand, of which $36.3 million was in connection with the restructuring plan in 2012 discussed in Note 9, Restructuring and Other Charges. Inventory charges for the years ended December 31, 2011 and 2010 were not material.

Property and Equipment

Property and equipment consisted of the following (in millions):

	As of December 31,	
	2012	2011
Computers and equipment	$711.8	$604.6
Software	106.6	110.2
Leasehold improvements	206.5	204.1
Furniture and fixtures	28.7	27.4
Building and building improvements	206.1	6.2
Land and land improvements	208.2	208.2
Construction-in-process	112.7	99.7
Property and equipment, gross	1,580.6	1,260.4
Accumulated depreciation	(768.7)	(661.8)
Property and equipment, net	$811.9	$598.6

Depreciation expense was $154.7 million, $142.2 million, and $146.8 million in 2012, 2011, and 2010, respectively. In 2011, the Company recorded a $13.5 million asset impairment charge in restructuring and other charges in the Consolidated Statement of Operations related to an abandoned in-process internal use software project.

Licensed Software

On July 3, 2012, the Company entered into an agreement with Riverbed Technology, Inc. ("Riverbed") to license Riverbed's Application Delivery Controller (“ADC”) software in exchange for the aggregate consideration of $88.0 million, which consist of the following: (1) cash consideration of $75.0 million ($65.0 million paid in the third quarter of 2012 and the remaining $10.0 million payable in the third quarter of 2013); (2) technology integration services with a fair value of $12.6 million; (3) technology partnership in wide area network optimization solutions; and (4) transaction costs of $0.4 million. Contingent consideration of up to $10.0 million has not been recorded but may also be payable to Riverbed if certain third-party approvals of the underlying technology integration services are not obtained.

The aggregate consideration of $88.0 million was allocated to the acquired ADC software of $84.4 million, associated prepaid maintenance and support of $1.0 million, and remaining amounts expected to be received through performance of services. The licensed software acquired was reported within other long-term assets on the Consolidated Balance Sheets. It will be amortized over its useful life of 6 years beginning in the period in which the product is available for general release to customers, estimated to be in 2013. The amortization expense will be recognized in cost of product revenues.

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The technology integration services require the Company to develop certain technology, cross-license of associated software, and to provide support over seven years. The fair value of technology integration services, less estimated amounts to be reimbursed is reported within deferred revenue on the Consolidated Balance Sheets. Amounts are deferred until the underlying technology has been delivered. In the event third-party approval is not obtained within a reasonable time frame, up to $20.0 million becomes payable to Riverbed. This amount is held in escrow and reported within restricted cash and investments on the Consolidated Balance Sheets.

Warranties

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

	As of December 31,	
	2012	2011
Beginning balance	$28.3	$35.9
Provisions made during the period, net	31.9	52.5
Change in estimate	—	(12.6)
Actual costs incurred during the period	(30.5)	(47.5)
Ending balance	$29.7	$28.3

Deferred Revenue

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

	As of December 31,	
	2012	2011
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$256.9	$288.1
Distributor inventory and other sell-through items	138.4	134.0
Deferred gross product revenue	395.3	422.1
Deferred cost of product revenue	(99.4)	(136.9)
Deferred product revenue, net	295.9	285.2
Deferred service revenue	627.5	681.8
Total	$923.4	$967.0
Reported as:		
Current	$693.5	$712.6
Long-term	229.9	254.4
Total	$923.4	$967.0

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

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

Other (Expense) Income, Net

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

	Years Ended December 31,		
	2012	2011	2010
Interest income	$11.0	$9.7	$10.5
Interest expense	(52.9)	(49.5)	(8.7)
Other	25.3	(7.0)	8.8
Other (expense) income, net	$(16.6)	$(46.8)	$10.6

Interest income primarily includes interest earned on the Company's cash, cash equivalents, and investments. Interest expense primarily includes interest expense net of capitalized interest expense from long-term debt and customer financing arrangements. Other consists of investment and foreign exchange realized and unrealized gains or losses and other non-operational income and expense items.

In 2012, the Company recognized gains of $45.5 million, including a $14.7 million gain from the acquisition of its privately-held investment in Contrail, and impairment losses of $20.0 million included in Other related to its privately-held investments. For the years end December 31, 2012 and 2011, interest expense included $40.0 million, net of $7.1 million capitalized, and $37.7 million, net of $1.2 million capitalized, respectively, related to the Company's outstanding long-term debt issued in March 2011 (See Note 10 Long-Term Debt and Financing). In 2011, Other included certain legal expenses unrelated to current or recent operations of approximately $7.0 million. In 2010, the Company recognized a total gain of $8.7 million, primarily due to acquisitions of its privately-held investments in Ankeena and Altor.

Note 9. Restructuring and Other Charges

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

During 2012, the Company initiated a restructuring plan (the "2012 Restructuring Plan") to bring its cost structure more in line with its desired long-term financial and strategic model. The 2012 Restructuring Plan consists of workforce reductions, facility consolidations or closures, and supply chain and procurement efficiencies. During the year ended December 31, 2012, the Company recorded $40.4 million in charges for workforce reductions, facility consolidations or closures, and other charges related to the 2012 Restructuring Plan. In connection with its restructuring activities, the Company also recorded certain inventory and intangible asset impairment charges and contract termination charges totaling $52.9 million to cost of revenues.

During 2011, the Company implemented a restructuring plan (the "2011 Restructuring Plan") in an effort to better align its business operations with the current market and macroeconomic conditions. The 2011 Restructuring Plan consisted of certain workforce reductions, facility closures and to a lesser extent, contract terminations. The Company recorded the majority of the restructuring charges associated with this plan during the years ended December 31, 2012 and 2011. Facilities-related charges are expected to be completed by March 2018.

During 2009, the Company implemented a restructuring plan (the "2009 Restructuring Plan") in an effort to better align its business operations with the market and macroeconomic conditions. The 2009 Restructuring Plan included restructuring of certain business functions that resulted in reductions of workforce and facilities. The Company recorded the majority of the restructuring charges associated with this plan during the years ended December 31, 2010 and 2009.

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

The following table presents restructuring and other charges included in restructuring and other charges in the Consolidated Statements of Operations under the Company's restructuring plans:

	Years Ended December 31,		
	2012	2011	2010
Severance	$36.7	$15.3	$3.9
Facilities	5.8	0.2	5.3
Contract terminations and other	$4.3	$15.1	$1.6
Total	$46.8	$30.6	$10.8

The following table provides a summary of changes in the restructuring liability related to the Company's plans as of December 31, 2012 (in millions):

	December 31, 2011	Charges	Cash Payments	Non-cash Settlements and Other	December 31, 2012
Severance	$3.1	$36.7	$(30.0)	$0.8	$10.6
Facilities	1.0	5.8	(1.6)	—	5.2
Contract terminations and other	—	4.3	(1.5)	(0.4)	2.4
Total	$4.1	$46.8	$(33.1)	$0.4	$18.2

In connection with the restructuring plans discussed above, the Company expects to record aggregate future charges of approximately $19.0 million through 2013, consisting of approximately $3.0 million and $16.0 million related to workforce reductions and facility closures, respectively.

Note 10. Long-Term Debt and Financing

Long-Term Debt

In March 2011, the Company issued $300.0 million aggregate principal amount of 3.10% senior notes due 2016 ("2016 Notes"), $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" and, together with the 2016 Notes and the 2021 Notes, the "Notes"). Interest on the Notes is payable in cash semiannually. The Company may redeem the Notes, at any time in whole or from time to time in part, subject to a make-whole premium, and, in the event of a change in control, 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 principle amount, plus accrued and unpaid interest, if any. The indenture that governs the Notes also contains various covenants, including limitations on the Company's ability to incur liens or enter into sale-leaseback transactions over certain dollar thresholds. As of December 31, 2012, the Company was in compliance with all of its debt covenants.

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

	As of December 31, 2012	
	Amount	Effective Interest Rates
Senior notes:		
3.10% fixed-rate notes, due 2016	$300.0	3.12%
4.60% fixed-rate notes, due 2021	300.0	4.63%
5.95% fixed-rate notes, due 2041	400.0	6.01%

Total senior notes	1,000.0
Unaccreted discount	(0.8)
Total	$999.2

The effective interest rates for the Notes include the interest on the Notes, accretion of the discount, and amortization of issuance costs. At December 31, 2012 and December 31, 2011, the estimated fair value of the Notes included in long-term debt was approximately $1,090.7 million and $1,069.8 million, respectively, based on quoted market prices (Level 1).

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Notes to Consolidated Financial Statements (Continued)

Customer Financing Arrangements

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

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of $677.8 million, $738.2 million and $637.5 million during the years ended December 31, 2012, 2011, and 2010, respectively. The Company received cash proceeds from the financing provider of $679.8 million, $686.5 million, and $595.7 million during the years ended December 31, 2012, 2011, and 2010, respectively. As of December 31, 2012 and December 31, 2011, the amounts owed by the financing provider were $147.6 million and $162.9 million, respectively, and were recorded in accounts receivable on the Company’s Consolidated Balance Sheets.

The portion of the receivable that has not been recognized as revenue is accounted for as a financing arrangement and is included in other accrued liabilities and other long-term liabilities in the Consolidated Balance Sheets. As of December 31, 2012 and December 31, 2011, the estimated cash received from the financing provider not recognized as revenue from distributors was $30.7 million and $33.3 million, respectively.

Note 11. Equity

Stock Repurchase Activities

In June 2012, the Company’s Board of Directors (the “Board”) approved a stock repurchase program (the "2012 Stock Repurchase Program"), which authorized the Company to repurchase up to $1.0 billion of its common stock. The 2012 Stock Repurchase Program was in addition to the stock repurchase program approved by the Board in February 2010 (the "2010 Stock Repurchase Program"), which authorized the Company to repurchase up to $1.0 billion of its common stock. The 2010 Stock Repurchase Program was in addition to the stock repurchase program approved by the Board in March 2008, which also enabled the Company to repurchase up to $1.0 billion of its common stock. As of December 31, 2012, there is $568.2 million of authorized funds remaining under the Company's Stock Repurchase Programs.

In addition to repurchases under the Company’s Stock Repurchase Programs, there were also repurchases of common stock from the Company's employees in connection with net issuance of shares to satisfy minimum tax withholding obligations for the vesting of certain stock awards.

The following table summarizes the Company's repurchases and retirements of its common stock under its Stock Repurchase Programs and repurchases from net issuances (in millions, except per share amounts):

	Shares Repurchased	Average price per share	Amount Repurchased
2012			
Repurchases and retirements of common stock	35.8	$18.05	$645.6

Repurchases from net issuances	0.2	$23.40	$5.0
2011			
Repurchases and retirements of common stock	17.5	$30.93	$541.2
Repurchases from net issuances	0.2	$35.98	$7.4
2010			
Repurchases and retirements of common stock	19.7	$28.67	$563.5
Repurchases from net issuances	0.1	$25.75	$1.9

All shares of common stock repurchased under the Company’s Stock Repurchase Programs and from its employees in connection with net issuances have been retired. Future share repurchases under the Company’s Stock Repurchase Programs will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time. See Note 18, Subsequent Events, for discussion of the Company's stock repurchase activity in 2013.

Note 12. Employee Benefit Plans

Share-Based Compensation Plans

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

As of December 31, 2012, a total of approximately 125.1 million shares of common stock were reserved for future issuance upon exercise of stock options and vesting of RSAs, RSUs, and PSAs, and for the future grant of share-based compensation awards under the Company's equity incentive plans and the 2008 Purchase Plan.

The 2006 Plan was adopted and approved by the Company’s stockholders in May 2006 and had an initial authorized share reserve of 64.5 million shares of common stock plus the addition of any shares subject to options under the 2000 Plan and the 1996 Plan that were outstanding as of May 18, 2006, and that subsequently expire unexercised, up to a maximum of an additional 75.0 million shares. In addition, the Company’s stockholders’ approved amendments to the 2006 Plan that increased the number of shares reserved for issuance under the 2006 Plan, thereby increasing the authorized share reserve by 30.0 million shares in both May 2010 and 2011, and 25.0 million shares in May 2012. As of December 31, 2012, the 2006 Plan had 54.2 million shares subject to currently outstanding equity awards and 54.3 million shares available for future issuance. Options granted under the 2006 Plan have a maximum term of seven years from the date of grant, and generally vest and become exercisable over a four-year period. Subject to the terms of change of control severance agreements, and except for a limited number of shares allowed under the 2006 Plan, RSUs or PSAs that vest solely based on continuing employment or provision of services will vest in full no earlier than three years from the grant date, or in the event vesting is based on factors other than continued future provision of services, such awards will vest in full no earlier than one year from the grant date.

During 2010 through 2012, the Company completed the acquisitions of Ankeena, Altor, Mykonos, and Contrail and assumed their respective plans: Ankeena Networks, Inc. 2008 Stock Plan; Altor Networks, Inc. 2007 Stock Plan and the 2009 Israeli Equity Incentive Sub Plan; Mykonos Software, Inc. 2010 Stock Plan, and Contrail Systems Inc. 2012 Stock Plan. In connection with these plans, the Company assumed stock options, RSA, and RSU awards and exchanged the assumed awards for Juniper Networks' stock options, RSAs, and RSUs. No new stock options, RSAs, and RSUs can be granted under these plans. The Company registered an aggregate of 1.3 million shares of its common stock, between 2010 and 2012, for stock awards previously granted under the assumed plans of the acquired companies and assumed 6.8 million shares of stock options, RSA, and RSU awards in connection with the acquisition of Contrail. As of December 31, 2012, stock options, RSAs, and RSUs representing approximately 7.2 million shares of common stock were outstanding under all awards assumed through the Company's acquisitions.

The Company adopted the 2008 Purchase Plan, in May 2008. The Board had an initial authorized share reserve of 12.0 million shares of the Company's common stock for issuance under this plan. In addition, the Company's stockholders' approved amendments to the 2008 Plan that increased the number of shares reserved for issuance under the 2008 Plan, thereby increasing the authorized share reserve by 7.0 million in May 2012. The 2008 Purchase Plan permits eligible employees to acquire shares of the Company's common stock at a 15% discount to the offering price (as determined in the 2008 Purchase Plan) through periodic payroll deductions of up to 10% of base compensation, subject to individual purchase limits of 6,000 shares in any twelve-month period or $25,000 worth of stock, determined at the fair market value of the shares at the time the stock purchase option is granted, in one calendar year.

Stock Option Activities

Since 2006, the Company has granted stock option awards that have a maximum contractual life of seven years from the date of grant. Prior to 2006, stock option awards generally had a ten-year contractual life from the date of grant.

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The following table summarizes the Company's stock option activity and related information as of and for the three years ended December 31, 2012 (in millions, except for per share amounts and years):

	Outstanding Options			
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at December 31, 2009	67.4	$20.84	4.6	$451.2
Options granted	6.2	29.15		
Options assumed[1]	0.5	31.65		
Options canceled	(2.3)	22.03		
Options exercised	(21.6)	18.99		
Options expired	(0.8)	61.48		
Balance at December 31, 2010	49.4	$21.90	4.1	$744.5
Options granted	5.6	37.17		
Options canceled	(1.9)	26.76		
Options exercised	(13.9)	21.13		
Options expired	(0.6)	34.32		
Balance at December 31, 2011	38.6	$23.98	3.7	$75.3
Options granted	3.1	22.81		
Options assumed[2]	0.9	0.57		
Options canceled	(2.8)	26.64		
Options exercised	(3.6)	11.71		
Options expired	(2.1)	26.97		
Balance at December 31, 2012	34.1	$24.13	3.1	$52.5
As of December 31, 2012:				
Vested or expected-to-vest options	33.0	$24.14	3.0	$48.4
Exercisable options	26.8	$23.77	2.4	$33.1

(1) Stock options assumed in connection with the acquisition of Ankeena and Altor.
(2) Stock options assumed in connection with the acquisition of Contrail.

Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $19.67 per share as of December 31, 2012, and the exercise price multiplied by the number of related options. The pre-tax intrinsic value of options exercised, representing the difference between the fair market value of the Company's common stock on the date of the exercise and the exercise price of each option, was $27.9 million, $249.8 million, and $260.3 million for 2012, 2011, and 2010, respectively. Total fair value of options vested during 2012, 2011, and 2010 was $70.9 million, $80.7 million, and $83.2 million, respectively.

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The following table summarizes information about stock options outstanding under all share-based compensation plans as of December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (In dollars)	Number Outstanding (In millions)	Weighted Average Remaining Contractual Life (In years)	Weighted Average Exercise Price (In dollars)	Number Exercisable (In millions)	Weighted Average Exercise Price (In dollars)
$0.03 - $15.00	3.6	3.8	$10.08	2.6	$13.51
$15.03 - $16.86	3.6	2.8	15.64	3.4	15.68
$17.08 - $19.97	3.5	1.2	18.59	3.3	18.56
$20.15 - $23.53	3.5	3.5	22.04	2.4	22.36
$23.69 - $24.20	3.5	3.5	24.14	2.1	24.10
$24.25 - $25.73	3.6	2.1	25.15	3.4	25.16
$25.90 - $27.24	3.4	3.0	26.69	3.1	26.72
$27.44 - $29.89	3.8	3.6	28.65	2.9	28.60
$29.93 - $40.26	4.2	3.7	35.92	2.9	34.91
$44.00 - $44.00	1.4	4.9	44.00	0.7	44.00
	34.1	3.1	$24.13	26.8	$23.77

As of December 31, 2012, approximately 26.8 million shares of common stock were exercisable at an average exercise price of $23.77 per share. As of December 31, 2011, approximately 26.1 million shares of common stock were exercisable at a weighted-average exercise price of $21.51 per share. As of December 31, 2010, approximately 32.1 million shares of common stock were exercisable at a weighted-average exercise price of $20.96 per share.

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

RSUs and RSAs generally vest over a period of three to four years from the date of grant and PSAs generally vest after three years provided that certain annual performance targets and other vesting criteria are met. Until vested, RSUs and PSAs do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding.

The following table summarizes the Company's RSUs, RSAs, and PSAs activity and related information as of and for the year ended December 31, 2012 (in millions, except per share amounts and years):

	Outstanding RSUs and PSAs			
	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at December 31, 2009	9.1	$21.76	1.6	$243.3
RSUs granted	4.0	30.19		
RSUs assumed[1]	0.5	32.09		
PSAs granted	3.8	29.25		
RSUs vested	(1.8)	25.30		
PSAs vested	(0.4)	20.64		
RSUs canceled	(0.6)	24.87		
PSAs canceled	(0.4)	22.57		
Balance at December 31, 2010	14.2	$25.94	1.7	$522.9
RSUs granted	7.3	31.75		
PSAs granted[2]	4.5	38.64		
RSUs vested	(1.7)	23.26		
PSAs vested	(0.8)	24.76		
RSUs canceled	(1.0)	31.57		
PSAs canceled	(2.9)	30.72		
Balance at December 31, 2011	19.6	$30.27	1.5	$400.5
RSUs granted	9.9	20.79		
RSUs assumed [4][5]	0.2	22.21		
PSAs granted[3]	2.2	23.07		
RSAs assumed [5]	5.8	19.59		
RSUs vested	(3.1)	27.04		
PSAs vested	(1.9)	18.21		
RSAs vested	(0.7)	19.59		
RSUs canceled	(2.9)	27.77		
PSAs canceled	(2.3)	29.71		
Balance at December 31, 2012	26.8	$27.76	1.7	$565.0
As of December 31, 2012:				
Vested and expected-to-vest RSUs, RSAs and PSAs	24.5	$26.11	1.5	$496.8

(1) RSUs assumed in connection with the acquisitions of Ankeena and Altor.

(2) The number of shares subject to PSAs granted represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term. The aggregate number of shares subject to these PSAs that would be issued if performance goals determined by the Compensation Committee are achieved is estimated at 1.9 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 4.5 million shares.

(3) The number of shares subject to PSAs granted represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term. The aggregate number of shares subject to these PSAs that would be

issued if performance goals determined by the Compensation Committee are achieved at target is 0.9 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 2.2 million shares.

(4) RSUs assumed in connection with the acquisition of Mykonos.

(5) RSUs and RSAs assumed in connection with the acquisition of Contrail.

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Shares Available for Grant

The following table presents the stock activity and the total number of shares available for grant under the 2006 Plan as of December 31, 2012 (in millions):

	Number of Shares
Balance at December 31, 2011	41.1
Additional shares authorized for issuance	25.0
RSUs and PSAs granted (1)	(25.4)
Options granted	(3.1)
RSUs and PSAs canceled (1)	11.8
Options canceled (2)	2.8
Options expired (2)	2.1
Balance at December 31, 2012	54.3

(1) RSUs and PSAs with a per share or unit purchase price lower than 100% of the fair market value of the Company's common stock on the day of the grant under the 2006 Plan are counted against shares authorized under the plan as two and one-tenth shares of common stock for each share subject to such award. The number of shares subject to PSAs granted represents the maximum number of shares that may be issued pursuant to the award over its full term.

(2) Includes canceled or expired options under the 1996 Plan and the 2000 Plan that expired after May 18, 2006, which become available for grant under the 2006 Plan according to its terms.

Employee Stock Purchase Plan

The Company's 2008 Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. Employees purchased approximately 3.5 million, 2.4 million, and 2.0 million shares of common stock through the 2008 Purchase Plan at an average exercise price of $16.26, $21.53, and $21.20 per share during fiscal years 2012, 2011, and 2010, respectively.

As of December 31, 2012, approximately 9.5 million shares have been issued and 9.5 million shares remain available for future issuance under the 2008 Purchase Plan.

Share-Based Compensation Expense

The weighted average assumptions used and the resulting estimates of fair value for stock options and the employee stock purchase plan were:

	Years Ended December 31,		
	2012	2011	2010
Stock Options:			
Volatility	45%	43%	38%
Risk-free interest rate	0.7%	1.5%	2.0%
Expected life (years)	4.2	4.1	4.3
Dividend yield	—	—	—
Weighted-average fair value per share	$8.47	$13.17	$9.77

Employee Stock Purchase Plan:

Volatility	47%	41%	35%
Risk-free interest rate	0.1%	0.2%	0.2%
Expected life (years)	0.5	0.5	0.5
Dividend yield	—	—	—
Weighted-average fair value per share	$5.53	$7.48	$6.55

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The Company's share-based compensation expense associated with stock options, employee stock purchases, RSUs, PSAs, and RSAs was recorded in the following cost and expense categories (in millions):

	Years Ended December 31,		
	2012	2011	2010
Cost of revenues - Product	$4.6	$4.6	$4.4
Cost of revenues - Service	17.0	15.7	13.5
Research and development	109.1	97.7	78.5
Sales and marketing	81.6	70.9	54.9
General and administrative	31.1	33.3	30.7
Total	$243.4	$222.2	$182.0

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

	Years Ended December 31,		
	2012	2011	2010
Options	$57.9	$76.2	$81.5
Assumed options	0.2	—	0.8
RSUs and PSAs	158.8	123.1	81.8
Assumed RSAs	4.8	—	—
Assumed RSUs	0.1	—	0.6
Employee stock purchase plan	20.8	18.5	13.1
Other acquisition-related compensation	0.8	4.4	4.2
Total	$243.4	$222.2	$182.0

As of December 31, 2012, approximately $69.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted-average period of approximately 2.4 years, approximately $247.8 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs and PSAs will be recognized over a weighted-average period of approximately 1.8 years and approximately $71.6 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSAs will be recognized over a weighted-average period of approximately 3.4 years.

401(k) Plan

The Company maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "IRC"). Employees meeting the eligibility requirements, as defined under the IRC, may contribute up to the statutory limits each year. The Company has matched employee contributions since January 1, 2001, currently matching 30% of all eligible employee contributions. All matching contributions vest immediately. The Company's matching contributions to the plan totaled $20.2 million, $16.3 million, and $13.2 million during the years ended December 31, 2012, 2011, and 2010, respectively.

Deferred Compensation Plan

The Company's non-qualified deferred compensation ("NQDC") plan is an unfunded and unsecured deferred compensation arrangement. Under the NQDC plan, officers and other senior employees may elect to defer a portion of their compensation and contribute such amounts to one or more investment funds. The NQDC plan assets are included within short-term investments, and offsetting obligations are included within accrued compensation in the Consolidated Balance Sheets. The investments are considered trading securities and are reported at fair value. The realized and unrealized holding gains and losses related to these investments are recorded in other expense, net, and the offsetting compensation expense is recorded as operating expenses in the Consolidated Statements of Operations. The deferred compensation liability under the NQDC plan was approximately $12.6 million and $9.3 million as of December 31, 2012 and December 31, 2011, respectively. For additional information regarding the Company's NQDC, see Note 4, Cash Equivalents and Investments.

Note 13. Segments

The Company’s chief operating decision maker (“CODM”) allocates resources and assesses performance based on financial information of the Company’s divisions. In fiscal 2012, the Company reorganized its operations into two reportable segments principally by product families: PSD and SSD. As a result of the change, product families and services were organized within the two divisions based on homogeneity of products and technology.

To provide improved visibility and comparability, the Company reclassified segment operating results for 2011 and 2010 to conform with the 2012 organizational realignments.

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

The Company's SSD segment offers solutions that meet a broad array of our customers’ priorities, from protecting the users, applications and data on the network to providing network services across a distributed infrastructure. The SSD segment primarily consists of security/other and routing products and services. Security/other includes High-End SRX services and vGW Virtual Gateways, High-End Firewall, virtual private network systems and appliances, secure socket layer virtual private network appliances, intrusion detection and prevention appliances, wide area network optimization platforms, and Junos Pulse. Routing primarily consists of Routing Services Software and Mobile Applications (such as MobileNext™).

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

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

	Years Ended December 31,		
	2012	2011	2010
PSD product revenues:			
Routing	$1,946.8	$2,166.0	$2,034.7
Switching	554.8	495.8	377.7
Security/other	182.5	213.2	211.1
Total PSD product revenues	2,684.1	2,875.0	2,623.5
PSD service revenues	834.3	713.3	603.3
Total PSD revenues	3,518.4	3,588.3	3,226.8
SSD product revenues:			
Security/other	493.3	490.6	539.4
Routing	84.7	112.7	95.8
Total SSD product revenues	578.0	603.3	635.2
SSD service revenues	269.0	257.1	231.3
Total SSD revenues	847.0	860.4	866.5
Total net revenues	4,365.4	4,448.7	4,093.3
Segment contribution margin:			
PSD	1,409.4	1,586.2	1,477.9
SSD	340.6	345.0	405.0
Total segment contribution margin	1,750.0	1,931.2	1,882.9
Corporate unallocated expenses (1)	(1,068.7)	(1,013.9)	(901.2)
Amortization of purchased intangible assets (2)	(32.3)	(27.1)	(8.6)
Share-based compensation expense	(243.4)	(222.2)	(182.0)
Share-based payroll tax expense	(1.1)	(9.3)	(6.4)
Restructuring and other charges (3)	(99.7)	(30.6)	(10.8)
Acquisition-related charges (4)	(2.0)	(9.6)	(6.3)
Other unallocated expense	5.3	—	—
Total operating income	308.1	618.5	767.6
Other (expense) income, net	(16.6)	(46.8)	10.6
Income before income taxes and noncontrolling interest	$291.5	$571.7	$778.2

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

Depreciation expense allocated to the PSD segment was $121.0 million, $109.5 million, $114.8 million and in the years ended December 31, 2012, 2011, and 2010, respectively. The depreciation expense allocated to the SSD segment was $33.7 million, $32.7 million, and $32.0 million in the years ended December 31, 2012, 2011, and 2010, respectively.

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

	Years Ended December 31,		
	2012	2011	2010
Americas:			
United States	$2,067.5	$2,015.8	$1,890.1
Other	218.4	222.2	205.5
Total Americas	2,285.9	2,238.0	2,095.6
Europe, Middle East, and Africa	1,266.3	1,339.8	1,189.3
Asia Pacific	813.2	870.9	808.4
Total	$4,365.4	$4,448.7	$4,093.3

During the years ended December 31, 2012 and 2010, Verizon accounted for 10.3% and 10.4% of net revenues, respectively, and was reported in the Company's PSD and SSD segments. During the year ended December 31, 2011, no single customer accounted for 10% or more of net revenues.

The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of December 31, 2012 and December 31, 2011, were attributable to U.S. operations. For the years ended December 31, 2012 and December 31, 2011, gross property and equipment held in the U.S., as a percentage of total property and equipment, was approximately 83% and 80%, respectively. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the CODM does not review asset information on a segment basis.

Note 14. Income Taxes

The components of income before the provision for income taxes and noncontrolling interest are summarized as follows (in millions):

	Years Ended December 31,		
	2012	2011	2010
Domestic	$114.1	$218.4	$370.6
Foreign	177.4	353.3	407.6
Total income before provision for income taxes and noncontrolling interest	$291.5	$571.7	$