JUNIPER NETWORKS INC
Form 10-Q
November 06, 2009

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

(Mark One)

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

For the quarterly period ended September 30, 2009

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, including zip code)	*(Registrant s telephone number, including area code)*

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

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

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

There were approximately 525,439,000 shares of the Company s Common Stock, par value $0.00001, outstanding as of November 2, 2009.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net revenues:				
Product	$ 634,074	$ 766,969	$ 1,828,896	$ 2,165,100
Service	189,838	179,993	545,562	483,783
Total net revenues	823,912	946,962	2,374,458	2,648,883
Cost of revenues:				
Product	206,329	230,060	606,966	636,985
Service	80,379	77,519	234,215	224,711
Total cost of revenues	286,708	307,579	841,181	861,696
Gross margin	537,204	639,383	1,533,277	1,787,187
Operating expenses:				
Research and development	185,204	194,014	554,498	551,017
Sales and marketing	177,345	200,600	529,163	576,886
General and administrative	39,877	37,623	118,263	106,866
Amortization of purchased intangible assets	1,330	5,190	9,259	38,318
Restructuring charges	4,493		16,251	
Other charges	1,000		1,000	9,000
Total operating expenses	409,249	437,427	1,228,434	1,282,087
Operating income	127,955	201,956	304,843	505,100
Interest and other income, net	1,733	9,740	6,581	40,517
Loss on minority equity investments			(3,311)	(1,499)
Income before income taxes	129,688	211,696	308,113	544,118
Provision for income taxes	45,902	63,188	214,018	164,845
Net income	$ 83,786	$ 148,508	$ 94,095	$ 379,273
Net income per share:				
Basic	$ 0.16	$ 0.27	$ 0.18	$ 0.71
Diluted	$ 0.16	$ 0.27	$ 0.18	$ 0.67

Shares used in computing net income per share:				
Basic	523,878	540,983	523,802	534,894
Diluted	538,132	554,350	532,686	561,932

See accompanying Notes to Condensed Consolidated Financial Statements

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

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,618,590	$ 2,019,084
Short-term investments	448,986	172,896
Accounts receivable, net of allowances	373,241	429,970
Deferred tax assets, net	160,230	145,230
Prepaid expenses and other current assets	52,724	49,026
Total current assets	2,653,771	2,816,206
Property and equipment, net	449,814	436,433
Long-term investments	531,509	101,415
Restricted cash	54,534	43,442
Purchased intangible assets, net	15,895	28,861
Goodwill	3,658,602	3,658,602
Long-term deferred tax assets, net	14,083	71,079
Other long-term assets	36,239	31,303
Total assets	$ 7,414,447	$ 7,187,341
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 243,585	$ 249,854
Accrued compensation	139,598	160,471
Accrued warranty	37,255	40,090
Deferred revenue	480,832	459,749
Income taxes payable	61,145	33,047
Other accrued liabilities	120,854	113,399
Total current liabilities	1,083,269	1,056,610
Long-term deferred revenue	162,363	130,514
Long-term income tax payable	173,343	78,164
Other long-term liabilities	38,050	20,648
Commitments and contingencies See Note 14		
Stockholders equity:		
Convertible preferred stock, $0.00001 par value; 10,000 shares authorized; none issued and outstanding		
Common stock, $0.00001 par value; 1,000,000 shares authorized; 525,342 shares and 526,752 shares issued and outstanding at September 30, 2009, and December 31, 2008, respectively	5	5
Additional paid-in capital	9,006,351	8,811,497

Accumulated other comprehensive income (loss)	3,461	(4,245)
Accumulated deficit	(3,052,395)	(2,905,852)
Total stockholders equity	5,957,422	5,901,405
Total liabilities and stockholders equity	$ 7,414,447	$ 7,187,341

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 94,095	$ 379,273
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	111,803	134,623
Stock-based compensation	101,445	78,877
Loss on minority equity investments	3,311	1,499
Change in excess tax benefits from share-based compensation	673	(38,756)
Deferred income taxes	41,996	(9,208)
Other non-cash charges		698
Changes in operating assets and liabilities:		
Accounts receivable, net	56,729	11,155
Prepaid expenses and other assets	(11,444)	3,862
Accounts payable	(778)	2,738
Accrued compensation	(20,873)	(29,569)
Income taxes payable	84,813	62,441
Other accrued liabilities	21,790	13,169
Deferred revenue	52,932	49,266
Net cash provided by operating activities	536,492	660,068
Cash flows from investing activities:		
Purchases of property and equipment, net	(113,210)	(121,728)
Purchases of available-for-sale investments	(1,164,833)	(384,835)
Proceeds from sales of available-for-sale investments	202,276	95,932
Proceeds from maturities of available-for-sale investments	262,325	231,764
Changes in restricted cash	(11,276)	(8,103)
Purchases of minority equity investments, net	(5,289)	(4,500)
Net cash used in investing activities	(830,007)	(191,470)
Cash flows from financing activities:		
Proceeds from issuance of common stock	131,391	115,424
Purchases and retirement of common stock	(241,481)	(562,187)
Net proceeds from customer financing arrangements	3,784	2,083
Redemption of convertible debt		(287)
Change in excess tax benefits from share-based compensation	(673)	38,756
Net cash used in financing activities	(106,979)	(406,211)
Net (decrease) increase in cash and cash equivalents	(400,494)	62,387
Cash and cash equivalents at beginning of period	2,019,084	1,716,110

Cash and cash equivalents at end of period	$ 1,618,590	$ 1,778,497
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued in connection with conversion of the Senior Notes	$	$ 399,153

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. (Juniper Networks or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information as well as the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009, or any future period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Quantitative and Qualitative Disclosures About Market Risk, and the Consolidated Financial Statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14, *Software (Topic 985) Certain Arrangements That Contain Software Elements a consensus of the FASB Emerging Issues Task Force* (EITF) (ASU 2009-14), which amends the scope of software revenue guidance in Accounting Standards Codification (ASC) Subtopic 985-605, *Software-Revenue Recognition,* to exclude tangible products containing software and non-software components that function together to deliver the product s essential functionality.

In October 2009, FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a consensus of the FASB EITF* (ASU 2009-13), which eliminates the residual method of allocation and requires the relative selling price method when allocating deliverables of a multiple-deliverable revenue arrangement. ASU 2009-13 specifies the best estimate of a selling price is consistent with that used to determine the price to sell the deliverable on a standalone basis.

ASU 2009-14 and ASU 2009-13 are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and must be adopted in the same period using the same transition method. If adoption is elected in a period other than the beginning of a fiscal year, the amendments in these standards must be applied retrospectively to the beginning of the fiscal year. Full retrospective application of these amendments to prior fiscal years is optional. Companies may elect early adoption of these standards. The Company is currently assessing the timing of adoption and affects that ASU 2009-14 and ASU 2009-13 will have on its consolidated results of operations and financial condition.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value* (ASU 2009-05). ASU 2009-05 amends FASB ASC Topic 820 and provides amendments to FASB ASC Subtopic 820-10, *Fair Value Measurements and Disclosures Overall*, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: (1) a valuation technique that uses: (a) quoted price of the identical liability when traded as an asset, or (b) quoted prices for similar liabilities or similar liabilities when traded as assets, or (2) another valuation technique that is consistent with the principles of FASB ASC Topic 820. The guidance in ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. The

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Company s adoption of ASU 2009-5 in the fourth quarter of 2009 will not materially affect the Company s consolidated results of operations or financial condition.

In June 2009, the FASB issued ASU No. 2009-01, Topic 105 *Generally Accepted Accounting Principles amendments based upon Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement 162* (ASU 2009-01). ASU 2009-1 adopts Statement of Financial Accounting Standards (SFAS) No. 168 and establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting principles to be applied to financial statements of nongovernmental entities in conformity with U.S. GAAP. ASU 2009-1 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company s implementation of ASU 2009-01 during the third quarter of 2009 did not affect its consolidated results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets An Amendment of FASB Statement No. 140* (SFAS 166), which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140), to eliminate the concept of the qualifying special-purpose entity (QSPE) from SFAS 140. SFAS 166 removes the exception from applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R) to QSPE, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 has not yet been included in the FASB Accounting Standards Codification. SFAS 166 is effective for each entity s first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. SFAS 166 must be applied to transfers of financial assets occurring on or after the effective date. Earlier application of SFAS 166 is prohibited. Accordingly, the Company s transfers of financial assets will be recorded and disclosed following existing GAAP until January 1, 2010. The impact of SFAS 166 on the Company s consolidated results of operations or financial condition will depend upon the level of activity of financial asset transfers that the Company may consummate after the effective date.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which amends FIN 46R. SFAS 167 amends FIN46R by eliminating the QSPE concept in SFAS 166. SFAS 167 amends the provisions on determining whether an entity is a variable interest entity and would require consolidation, as well as requires additional disclosures. SFAS 167 has not yet been included in the FASB Accounting Standards Codification. SFAS 167 is effective for each entity s first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application of SFAS 167 is prohibited. Accordingly, the Company will adopt SFAS 167 on January 1, 2010. The impact of SFAS 167 on the Company s consolidated results of operations or financial condition will depend upon its involvement with variable interest entities as of and subsequent to the adoption date.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for that period. Diluted net income per share is computed giving effect to all dilutive potential common shares that were outstanding during the period on a weighted average basis. Dilutive potential common shares consist of shares issuable upon conversion of senior notes, if any, and various employee stock awards including, common shares issuable upon exercise of stock options, vesting of restricted stock units (RSUs), and vesting of performance shares.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income	$ 83.8	$ 148.5	$ 94.1	$ 379.3
Denominator:				
Weighted-average shares used to compute basic net income per share	523.9	541.0	523.8	534.9
Effect of dilutive securities:				
Shares issuable upon conversion of the Senior Notes				11.8
Employee stock awards	14.2	13.3	8.9	15.2
Weighted average shares used to compute diluted net income per share	538.1	554.3	532.7	561.9
Net income per share:				
Basic	$ 0.16	$ 0.27	$ 0.18	$ 0.71
Diluted	$ 0.16	$ 0.27	$ 0.18	$ 0.67

Employee stock awards for approximately 24.4 million shares and 48.4 million shares of the Company s common stock were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2009, respectively, because their effect would have been anti-dilutive. For the three and nine months ended September 30, 2008, approximately 25.5 million shares and 21.4 million shares of the Company s outstanding common stock equivalents, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Cash, Cash Equivalents, and Investments

The following table summarizes the Company s cash and cash equivalents (in millions):

	As of	
	September 30, 2009	December 31, 2008
Cash:		
Demand deposits	$ 376.1	$ 285.9
Time deposits	124.6	125.1
Total cash	500.7	411.0
Cash equivalents:		
U.S. government securities	74.4	141.8
Government-sponsored enterprise obligations	35.8	94.8
Commercial paper	63.8	90.4
Money market funds	943.9	1,281.1
Total cash equivalents	1,117.9	1,608.1
Total cash and cash equivalents	$ 1,618.6	$ 2,019.1

Summary of Investments

The following table summarizes the Company s unrealized gains and losses, and fair value of investments designated as trading or available-for-sale, as of September 30, 2009, (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income securities:				
U.S. government securities	$ 217.8	$ 0.1	$	$ 217.9
Government-sponsored enterprise obligations	229.1	1.3		230.4
Foreign government debt securities	88.9	0.3	(0.1)	89.1
Commercial paper	96.8			96.8
Corporate debt securities	334.9	2.0	(0.2)	336.7
Total fixed income securities	967.5	3.7	(0.3)	970.9
Publicly-traded equity securities	9.5	0.1		9.6
Total	$ 977.0	$ 3.8	$ (0.3)	$ 980.5
Reported as:				
Short-term investments	$ 447.9	$ 1.1	$	$ 449.0

Long-term investments	529.1	2.7	(0.3)	531.5
Total	$ 977.0	$ 3.8	$ (0.3)	$ 980.5

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The following table presents the Company s maturities of its available-for-sale investments and publicly-traded securities, as of September 30, 2009, (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income securities:				
Due within one year	$ 438.4	$ 1.0	$	$ 439.4
Due between one and five years	529.1	2.7	(0.3)	531.5
Total fixed income securities	967.5	3.7	(0.3)	970.9
Publicly-traded equity securities	9.5	0.1		9.6
Total investments	$ 977.0	$ 3.8	$ (0.3)	$ 980.5

The following table presents the Company s trading and available-for sale investments that are in an unrealized loss position as of September 30, 2009, (in millions):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Foreign government debt securities	$ 39.6	$ (0.1)	$	$	$ 39.6	$ (0.1)
Corporate debt securities	157.8	(0.2)			157.8	(0.2)
Total	$ 197.4	$ (0.3)	$	$	$ 197.4	$ (0.3)

The following table summarizes the Company s unrealized gains and losses, and fair value of investments designated as trading or available-for-sale, as of December 31, 2008, (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income securities:				
U.S. government securities	$ 86.6	$ 0.1	$	$ 86.7
Government-sponsored enterprise obligations	70.4	1.6	(0.1)	71.9
Corporate debt securities	110.4	0.4	(0.5)	110.3
Total fixed income securities	267.4	2.1	(0.6)	268.9
Publicly-traded equity securities	5.4			5.4
Total	$ 272.8	$ 2.1	$ (0.6)	$ 274.3

Reported as:				
Short-term investments	$ 172.5	$ 0.6	$ (0.2)	$ 172.9
Long-term investments	100.3	1.5	(0.4)	101.4
Total	$ 272.8	$ 2.1	$ (0.6)	$ 274.3

The Company had 30 and 26 investments that were in an unrealized loss position as of September 30, 2009, and December 31, 2008, respectively. The gross unrealized losses related to these investments were due to changes in interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For fixed income securities that have unrealized losses, the Company has determined that (i) it does not have the intent to sell any of these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company did not consider these investments to be other-than-temporarily impaired as of September 30, 2009, and December 31, 2008, respectively. 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

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

the securities have been in a continuous unrealized loss position to facilitate its evaluation.

Minority Equity Investments

The Company s minority equity investments in privately-held companies are carried at cost, as the Company does not have a controlling interest and does not have the ability to exercise significant influence over these companies. The Company adjusts its minority equity investments for any impairment if the fair value exceeds the carrying value of the respective assets.

As of September 30, 2009, and December 31, 2008, the carrying values of the Company s minority equity investments in privately-held companies of $15.2 million and $14.2 million, respectively, were included in other long-term assets in the condensed consolidated balance sheets. Due to events and circumstances that significantly affected the fair value of two of its minority equity investments in the first half of 2009, which are normally carried at cost, the Company measured the fair value of these minority equity investments using an analysis of the financial condition and near-term prospects of the investees, including recent financing activities and their capital structure. As a result, during the nine months ended September 30, 2009, the Company recognized a loss of $3.3 million due to the impairment of its minority equity investments in privately-held companies that the Company judged to be other than temporary. The Company invested $6.3 million and $4.5 million in privately-held companies during the nine months ended September 30, 2009, and 2008, respectively. In addition, during the nine months ended September 30, 2009, the Company had a minority equity investment of $2.0 million in a privately-held company that was acquired by a publicly-traded company for which the Company received a cash payment of $1.0 million and $1.0 million in common stock of the acquiring company.

Note 5. Fair Value Measurements

Fair Value Hierarchy

The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are 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.

Level 3 Inputs are unobservable inputs based on the Company s assumptions.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables provide the assets and liabilities, if any, measured at fair value on a recurring basis (in millions):

	Fair Value Measurements at September 30, 2009, 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:				
U.S. government securities	$ 109.9	$ 234.1	$	$ 344.0
Government-sponsored enterprise obligations	221.1	45.1		266.2
Foreign government debt securities	26.6	62.5		89.1
Corporate debt securities		336.7		336.7
Commercial paper		160.6		160.6
Money market funds	943.9			943.9
Publicly-traded securities	9.6			9.6
Derivative asset		1.0		1.0
Total	$ 1,311.1	$ 840.0	$	$ 2,151.1

	Fair Value Measurements at December 31, 2008, 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:				
U.S. government securities	$ 26.3	$ 202.2	$	$ 228.5
Government-sponsored enterprise obligations	71.9	94.8		166.7
Corporate debt securities		110.3		110.3
Commercial paper		90.4		90.4
Money market funds	1,281.1			1,281.1
Publicly-traded securities	5.4			5.4
Derivative asset		2.6		2.6

Total	$ 1,384.7	$ 500.3	$ 1,885.0

Assets measured at fair value on a recurring basis are presented on the Company s condensed consolidated balance sheets as follows (in millions):

	Fair Value Measurements at September 30, 2009, 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**
Reported as:				
Cash equivalents	$ 943.9	$ 174.0	$	$ 1,117.9
Short-term investments	146.9	302.1		449.0
Long-term investments	170.2	361.3		531.5
Prepaid expenses and other assets	50.1	2.6		52.7
Total	$ 1,311.1	$ 840.0	$	$ 2,151.1

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Assets measured at fair value on a recurring basis are presented on the Company s condensed consolidated balance sheets as follows (in millions):

	Fair Value Measurements at December 31, 2008, 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
Reported as:				
Cash equivalents	$ 1,281.1	$ 327.0	$	$ 1,608.1
Short-term investments	57.1	115.8		172.9
Long-term investments	46.5	54.9		101.4
Prepaid expenses and other current assets		2.6		2.6
Total	$ 1,384.7	$ 500.3	$	$ 1,885.0

Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the Company s assets that were measured at fair value on a nonrecurring basis and the impairment charges recorded to loss on minority equity investments (in millions):

		Fair Value Measurements Using			Impairment Charges for	Impairment Charges for
	Net Carrying Value as of September 30, 2009	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	the Three Months Ended September 30, 2009	the Nine Months Ended September 30, 2009
Assets:						
Minority equity investments	$ 1.7	$	$	$ 1.7	$	$ (3.3)
Total	$ 1.7	$	$	$ 1.7	$	$ (3.3)

The following table presents the Company s Level 3 asset activities during the three and nine months ended September 30, 2009, (in millions):

	Minority Equity Investments	
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Level 3 asset activities:		
Beginning balance	$ 1.7	$
Transfers in to Level 3		5.0
Total loss recognized in statements of operations		(3.3)
Ending balance	$ 1.7	$ 1.7

In the nine months ended September 30, 2009, due to events and circumstances that significantly affected the fair value of two of its minority equity investments, which are normally carried at cost, the Company measured the fair value of these minority equity investments, at the time of impairment, using an analysis of the financial condition and near-term prospects of the investees, including recent financing activities and their capital structure. As a result, the Company recognized an impairment loss of $3.3 million during the nine months ended September 30, 2009, and classified the investments as a Level 3 asset due to the absence of quoted market prices and inherent lack of liquidity. The Company had no liabilities that were measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2009.

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Note 6. Goodwill and Purchased Intangible Assets

Goodwill

The following table presents goodwill by segment as of September 30, 2009, and December 31, 2008, (in millions):

Segments	
Infrastructure	$ 1,500.5
Service Layer Technologies	2,158.1
Total	$ 3,658.6

There were no changes to goodwill during the three and nine months ended September 30, 2009.

Purchased Intangible Assets

The following table presents the Company s purchased intangible assets with definite lives (in millions):

	Gross	Accumulated Amortization	Net
As of September 30, 2009:			
Technologies and patents	$ 380.0	$ (374.8)	$ 5.2
Other	68.9	(58.2)	10.7
Total	$ 448.9	$ (433.0)	$ 15.9
As of December 31, 2008:			
Technologies and patents	$ 379.6	$ (365.4)	$ 14.2
Other	68.9	(54.3)	14.6
Total	$ 448.5	$ (419.7)	$ 28.8

Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled $2.7 million and $6.5 million for the three months ended September 30, 2009, and 2008, respectively, and $13.4 million and $37.4 million for the nine months ended September 30, 2009, and 2008, respectively. In addition, during the nine months ended September 30, 2008, the Company recorded an impairment charge of $5.0 million, included in its amortization of purchased intangible assets, due to the phase out of its DX products. There was no impairment charge with respect to the purchased intangible assets in the three and nine months ended September 30, 2009.

The estimated future amortization expense of purchased intangible assets with definite lives for future periods is as follows (in millions):

Years Ending December 31,	Amount
2009 (remaining three months)	$ 2.1
2010	4.0
2011	2.1
2012	1.2
2013	1.1

Thereafter	5.4
Total	$ 15.9

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Note 7. Other Financial Information

Restricted Cash

As of September 30, 2009, and December 31, 2008, restricted cash was $54.5 million and $43.4 million, respectively, which consisted of escrow accounts required by certain acquisitions completed in 2005, the India Gratuity Trust, which covers statutory severance obligations in the event of termination of the Company s India employees who have provided five or more years of continuous service, and the Directors & Officers (D&O) indemnification trust.

Warranties

The Company provides for the estimated cost of product warranties at the time revenue is recognized. This provision is reported as accrued warranty within current liabilities on the Company s condensed consolidated balance sheets. Changes in the Company s warranty reserve were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Beginning balance	$ 35.8	$ 41.8	$ 40.1	$ 37.5
Provisions made during the period, net	14.7	3.8	33.4	16.0
Change in estimate	(1.1)		(4.5)	
Actual costs incurred during the period	(12.1)	(2.5)	(31.7)	(10.4)
Ending balance	$ 37.3	$ 43.1	$ 37.3	$ 43.1

Deferred Revenue

Details of the Company s deferred revenue were as follows (in millions):

	As of	
	September 30, 2009	December 31, 2008
Deferred product revenue:		
Deferred gross product revenue	$ 328.4	$ 268.0
Deferred cost of product revenue	(138.0)	(110.0)
Deferred product revenue, net	190.4	158.0
Deferred service revenue	452.8	432.3
Total	$ 643.2	$ 590.3
Reported as:		
Current	$ 480.8	$ 459.8
Long-term	162.4	130.5
Total	$ 643.2	$ 590.3

Restructuring Liabilities

During the first nine months of 2009, the Company implemented a restructuring plan (the 2009 Restructuring Plan) in an effort to better align its business operations with the current market and macroeconomic conditions. The restructuring plan included a restructuring of certain business functions that resulted in reductions of workforce and facilities. The Company recorded $4.5 million and $16.3 million in restructuring charges during the three and nine months ended September 30, 2009, associated with the 2009 Restructuring Plan. The Company paid $2.8 million and $6.0 million for severance related charges associated with the 2009 Restructuring Plan during the three and nine months ended September 30, 2009. During the three and nine months ended September 30, 2008, the Company

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incurred no restructuring charges and paid an immaterial amount associated with past restructuring plans. As of September 30, 2009, the restructuring liability was $8.3 million.

Restructuring charges were based on the Company s restructuring plans that were committed to by management. Any changes in the estimates of executing the approved plans will be reflected in the Company s results of operations.

Other Charges

The Company recorded $1.0 million as other charges in the three and nine months ended September 30, 2009, related to an arbitration of a legal dispute. In the three and nine months ended September 30, 2008, the Company recorded nil and $9.0 million, respectively, as other charges for the settlement of its derivative lawsuits.

Interest and Other Income, Net

Interest and other income, net, consists of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest income and expense, net	$ 1.6	$ 12.8	$ 5.2	$ 44.6
Other income and expense, net	0.1	(3.1)	1.4	(4.1)
Total interest and other income, net	$ 1.7	$ 9.7	$ 6.6	$ 40.5

Interest income and expense, net, primarily includes interest income from the Company s cash, cash equivalents, and investments as well as interest expense from customer financing arrangements. Other income and expense, net, primarily includes foreign exchange gains and losses and other miscellaneous expenses such as bank fees.

Note 8. Financing Arrangements

The Company has customer financing arrangements to sell its accounts receivable to a major third-party financing provider. 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 has surrendered control over the transferred assets. The accounts receivable have been 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 receivable financing arrangements for the sale of receivables, the Company sold receivables of $122.5 million and $139.8 million during the three months ended September 30, 2009, and 2008, respectively, and $294.9 million and $306.9 million during the nine months ended September 30, 2009, and 2008, respectively. During the three months ended September 30, 2009, and 2008, the Company received cash proceeds of $101.5 million and $125.6 million, respectively, and $277.2 million and $257.7 million during the nine months ended September 30, 2009, and 2008, respectively, from the financing provider. The amount owed by the financing provider recorded as accounts receivable on the Company s condensed consolidated balance sheets as of September 30, 2009, and December 31, 2008, was $84.3 million and $73.9 million, respectively.

The portion of the receivable financed that has not been recognized as revenue is accounted for as a financing arrangement. As of September 30, 2009, and December 31, 2008, cash received from the financing provider that has not been recognized as revenue was approximately $36.7 million and $33.0 million, respectively.

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Note 9. Derivative Instruments

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

Cash Flow Hedges

The Company uses 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 protect 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 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 cost of services or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during the three and nine months ended September 30, 2009, and the comparable periods in 2008 in interest and other income, net on its condensed consolidated statements of operations. Cash flows from such hedges are classified as operating activities. All amounts within other comprehensive income (loss) are expected to be reclassified into income within the next 12 months.

Non-Designated Hedges

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 hedges do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in interest and other 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. The derivatives have maturities of approximately two months.

The following table summarizes the total fair value of the Company s derivative instruments as of September 30, 2009, (in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	$ 1.2	Other current liabilities	$ 0.1
Total		$ 1.2		$ 0.1

The Company has no non-designated derivatives as of September 30, 2009.

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The following represents the Company s top three outstanding derivative positions by currency as of September 30, 2009, (in millions):

Foreign currency forward contracts:	Buy EUR	Buy GBP	Buy INR
Notional amount of foreign currency	35.2	11.1	1,565.5
U.S Dollar equivalent	$50.9	$18.1	$29.0
Weighted average maturity	2 months	2 months	2 months

The effective portion of the Company s derivative instruments on its condensed consolidated statements of operations during the three and nine months ended September 30, 2009, was as follows (in millions):

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Gain Recognized in Accumulated Other Comprehensive Income (Effective Portion)	Location of Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portions)	Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portion)	Gain Recognized in Accumulated Other Comprehensive Income (Effective Portion)	Location of Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portion)	Gain Reclassified from Accumulated Other Comprehensive Income to Statements of Operations (Effective Portion)
Foreign exchange forward contracts	$ 2.1	Operating expense	$ 3.3	$ 1.4	Operating expense	$ 1.6
Total	$ 2.1		$ 3.3	$ 1.4		$ 1.6

The ineffective portion of the Company s derivative instruments on its condensed consolidated statements of operations was immaterial during the three and nine months ended September 30, 2009.

Gains on the Company s non-designated derivative instruments recognized in its condensed consolidated statements of operations during the three and nine months ended September 30, 2009, were as follows (in millions):

	Gain Recognized in Statements of Operations

	Location of Gain in Statements of Operations	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Other income, net	$ 1.8	$ 5.0
Total		$ 1.8	$ 5.0

Note 10. Stockholders Equity

Stock Repurchase Activities

In March 2008, the Company s Board of Directors (the Board) approved a stock repurchase program (the 2008 Stock Repurchase Program), which authorized the Company to purchase up to $1.0 billion of its common stock. Under this program, the Company repurchased approximately 2.9 million shares of its common stock, at an average price of $24.67 per share for a total purchase price of $71.9 million in the three months ended September 30, 2009, and approximately 12.6 million shares of its common stock at an average price of $19.18 per share for a total purchase price of $241.1 million in the nine months ended September 30, 2009. As of September 30, 2009, the Company has repurchased and retired approximately 22.3 million shares of common stock under the 2008 Stock Repurchase Program and the program has remaining authorized funds of $531.0 million.

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All shares of common stock purchased under the 2008 Stock Repurchase Program have been retired. Future share repurchases under the Company s 2008 Stock Repurchase Program will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

Comprehensive Income

Comprehensive income consists of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	$ 83.8	$ 148.5	$ 94.1	$ 379.3
Change in net unrealized gains (losses) on investments, net of tax of nil	(0.9)	(4.4)	1.7	(7.8)
Change in foreign currency translation adjustment, net of tax of nil	4.9	(10.7)	6.0	(9.8)
Total comprehensive income	$ 87.8	$ 133.4	$ 101.8	$ 361.7

Accumulated Deficit

The following table summarizes the activity in the Company s accumulated deficit account (in millions):

	Nine Months Ended September 30, 2009
Balance, December 31, 2008	$ (2,905.8)
Retirement of common stock	(240.7)
Net income	94.1
Balance, September 30, 2009	$ (3,052.4)

Note 11. Employee Benefit Plans

Stock Option Plans

2006 Equity Incentive Plan

On May 18, 2006, the Company s stockholders adopted the Company s 2006 Equity Incentive Plan (the 2006 Plan) to enable the granting of incentive stock options, nonstatutory stock options, RSUs, restricted stock, stock appreciation rights, performance shares, performance units, deferred stock units, and dividend equivalents to the employees and consultants of the Company. The 2006 Plan also provides for automatic, non-discretionary awards of nonstatutory stock options and RSUs to the Company s non-employee members of the Board.

The maximum aggregate number of shares authorized under the 2006 Plan is 64,500,000 shares of common stock, plus the addition of any shares subject to outstanding options under the Company s Amended and Restated 1996 Stock Plan (the 1996 Plan) and the Company s 2000 Nonstatutory Stock Option Plan (the 2000 Plan) that expire unexercised after May 18, 2006, up to a maximum of 75,000,000 additional shares of common stock.

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Options granted under the 2006 Plan have a maximum term of seven years from the grant date, 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, restricted stock, performance shares, RSUs, or deferred stock units that vest solely based on continuing employment or provision of services will vest in full no earlier than the three-year anniversary of 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 the one-year anniversary of the grant date. The 2006 Plan provides each non-employee director an automatic grant of an option to purchase 50,000 shares of common stock on the date such individual first becomes a director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy (the First Option). In addition, at each of the Company s annual stockholder meetings: (i) each non-employee director who was a non-employee director on the date of the prior year s annual stockholder meeting shall be automatically granted RSUs for a number of shares equal to the Annual Value (as defined below), and (ii) each non-employee director who was not a non-employee director on the date of the prior year s annual stockholder meeting shall receive a RSU award for a number of shares determined by multiplying the Annual Value by a fraction, the numerator of which is the number of days since the non-employee director received their First Option, and the denominator of which is 365, rounded down to the nearest whole share. Each RSU award specified in (i) and (ii) are referred to herein as an Annual Award. The Annual Value means the number of RSUs equal to $125,000 divided by the average daily closing price of the Company s common stock over the six month period ending on the last day of the fiscal year preceding the date of grant (for example, the period from July 1, 2008 December 31, 2008 for Annual Awards granted in May 2009). The First Option vests monthly over approximately three years from the grant date subject to the non-employee director s continuous service on the Board. The Annual Award shall vest approximately one year from the grant date subject to the non-employee director s continuous service on the Board. Under the 2006 Plan, options granted to non-employee directors have a maximum term of seven years.

2000 Nonstatutory Stock Option Plan

In July 2000, the Board adopted the 2000 Plan. The 2000 Plan provided for the granting of nonstatutory stock options to employees, directors, and consultants. Options granted under the 2000 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years. The Company had authorized 90,901,437 shares of common stock for issuance under the 2000 Plan. Effective May 18, 2006, additional equity awards under the 2000 Plan were discontinued and new equity awards are being granted under the 2006 Plan. Remaining authorized shares under the 2000 Plan that were not subject to outstanding awards as of May 18, 2006, were canceled on May 18, 2006. The 2000 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

Amended and Restated 1996 Stock Plan

The 1996 Plan provided for the granting of incentive stock options to employees and nonstatutory stock options to employees, directors, and consultants. On November 3, 2005, the Board adopted an amendment to the 1996 Plan to add the ability to issue RSUs under the 1996 Plan. Options granted under the 1996 Plan generally become exercisable over a four-year period beginning on the date of grant and have a maximum term of ten years. The Company had authorized 164,623,039 shares of common stock for issuance under the 1996 Plan. Effective May 18, 2006, additional equity awards under the 1996 Plan were discontinued and new equity awards are being granted under the 2006 Plan. Remaining authorized shares under the 1996 Plan that were not subject to outstanding awards as of May 18, 2006, were canceled on May 18, 2006. The 1996 Plan will remain in effect as to outstanding equity awards granted under the plan prior to May 18, 2006.

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Plans Assumed Upon Acquisition

In connection with past acquisitions, the Company assumed options and restricted stock under the stock plans of the acquired companies. The Company exchanged those options and restricted stock for Juniper Networks options and restricted stock and, in the case of the options, authorized the appropriate number of shares of common stock for issuance pursuant to those options. As of September 30, 2009, there were approximately 2.1 million shares of common stock subject to outstanding awards under plans assumed through past acquisitions. There was no restricted stock subject to repurchase as of September 30, 2009, and December 31, 2008. There were no restricted stock repurchases during the three and nine months ended September 30, 2009, and 2008.

Stock Option Activities

A summary of the Company s stock option activity and related information as of and for the nine months ended September 30, 2009, is set forth in the following table:

	Number of Shares (In thousands)	Weighted Average Exercise Price (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Balance at January 1, 2009	73,637	$21.24		
Options granted	8,271	16.27		
Options canceled	(1,870)	21.62		
Options exercised	(6,661)	14.05		
Options expired	(1,326)	24.83		
Balance at September 30, 2009	72,051	$21.55	4.50	$493,893
As of September 30, 2009:				
Vested or expected-to-vest options	64,111	$21.66	4.37	$439,830
Exercisable options	46,948	22.22	3.86	315,381

In the three and nine months ended September 30, 2009, the Company granted stock options covering approximately 0.7 million and 8.3 million shares of common stock, respectively, under the 2006 Plan. Total fair value of options vested for the three and nine months ended September 30, 2009, was $22.3 million and $66.1 million, respectively. Aggregate intrinsic value represents the difference between the Company s closing stock price on the last trading day of the fiscal period, which was $27.02 as of September 30, 2009, 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 $36.2 million and $63.4 million for the three and nine months ended September 30, 2009, respectively.

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Restricted Stock Units and Performance Share Awards Activities

RSUs generally vest over a period of three to four years from the date of grant and performance share awards generally vest from 2009 through 2012 provided that certain annual performance targets and other vesting criteria are met. Until vested, RSUs and performance share awards 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 information about the Company s RSUs and performance share awards as of and for the nine months ended September 30, 2009:

	Outstanding RSUs and Performance Share Awards			
	Number of Shares (In thousands)	Weighted Average Grant-Date Fair Value (In dollars)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Balance at January 1, 2009	6,692	$24.59		
RSUs and performance share awards granted	4,175	26.24		
RSUs and performance share awards vested	(1,324)	25.67		
RSUs and performance share awards canceled	(751)	23.24		
Balance at September 30, 2009	8,792	$21.50	1.7	$ 237,560
As of September 30, 2009:				
Vested and expected-to-vest RSUs and performance share awards	5,701	$21.54	1.7	$ 154,035

In the three months ended September 30, 2009, the Company granted RSUs and performance share awards covering approximately 0.1 million and 0.5 million shares of common stock, respectively, under the 2006 Plan. In the nine months ended September 30, 2009, the Company granted RSUs and performance share awards covering approximately 1.5 million and 2.7 million shares of common stock, respectively, under the 2006 Plan. During the three and nine months ended September 30, 2009, RSUs and performance share awards covering approximately 0.2 million and 1.3 million shares of common stock, respectively, vested.

Employee Stock Purchase Plan

In April 1999, the Board of Directors approved the adoption of the Juniper Networks 1999 Employee Stock Purchase Plan (the 1999 Purchase Plan). The 1999 Purchase Plan permits eligible employees to acquire shares of the Company s common stock through periodic payroll deductions of up to 10% of base compensation. Each employee may purchase no more than 6,000 shares in any twelve-month period, and in no event may an employee purchase more than $25,000 worth of stock, determined at the fair market value of the shares at the time such option is granted, in one calendar year. The 1999 Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company s common stock on the first or last trading day of the applicable offering period. Employees purchased approximately 1.6 million shares of common stock through the 1999 Purchase Plan at an average price of $12.04 per share in the nine months ended September 30, 2009. Employees purchased approximately

0.9 million and 1.6 million shares of common stock through the 1999 Purchase Plan at an average price of $22.13 and $22.57 per share in the three and nine months ended September 30, 2008, respectively. Effective February 1, 2009, immediately following the conclusion of the offering period ended January 30, 2009, the 1999 Purchase Plan was discontinued, and no shares remained available for future issuance under such plan.

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In May 2008, the Company s stockholders approved the adoption of the Juniper Networks 2008 Employee Stock Purchase Plan (the 2008 Purchase Plan). The 2008 Purchase Plan replaced the 1999 Purchase Plan, which terminated immediately following the conclusion of the offering period ended January 30, 2009. The Board has reserved an aggregate of 12,000,000 shares of the Company s common stock for issuance under the 2008 Purchase Plan. The 2008 Purchase Plan is generally similar to the 1999 Purchase Plan, except that under the 2008 Purchase Plan, the Company s stockholders must approve any increases to the number of shares reserved for issuance. The first offering period of the 2008 Purchase Plan commenced on the first trading day after February 1, 2009. Employees purchased approximately 1.6 million shares of common stock through the 2008 Purchase Plan at an average price of $12.28 per share in the three and nine months ended September 30, 2009.

Shares Available for Grant

The following table presents the total number of shares available for grant under the 2006 Plan as of September 30, 2009:

	Number of Shares (in thousands)
Balance at January 1, 2009	28,589
RSUs and performance share awards granted (1)	(8,768)
Options granted	(8,271)
RSUs canceled (1)	1,466
Options canceled (2)	1,870
Options expired (2)	1,316
Balance at September 30, 2009	16,202

(1) RSUs and performance share awards 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.

(2) Includes canceled or expired options under the 1996 Plan and the 2000 Plan that expired unexercised after May 18, 2006.

Common Stock Reserved for Future Issuance

As of September 30, 2009, the Company had reserved an aggregate of approximately 107.4 million shares of common stock for future issuance under its stock award plans and the 2008 Purchase Plan.

Stock-Based Compensation Expense

The Company has elected to use the Black-Scholes-Merton (BSM) option-pricing model, which incorporates various assumptions including volatility, risk-free interest rate, expected life, and dividend yield to calculate the fair value of stock option awards and common shares issues under the 1999 and 2008 Purchase Plans. 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 an award is based on historical experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that had not been exercised at the time.

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In 2007, the government of India implemented a new fringe benefit tax that applied to equity awards granted to India taxpayers. This fringe benefit tax was payable by the issuer of the equity awards; however, the law allowed an issuer to recover from individual award holders the fringe benefit taxes the issuer paid on their applicable equity awards. In January 2008, the Company amended its equity award agreements for future grants made to its employees in India to provide for the Company to be reimbursed for fringe benefit taxes paid in relation to applicable equity awards. The Company elected to use a BSM option-pricing model that incorporates a Monte Carlo simulation to calculate the fair value of stock-based awards issued under the amended equity award agreements. In August 2009, the government of India repealed the fringe benefit tax that applied to equity awards granted to India taxpayers. As of the effective date of the repeal, the Company discontinued the Monte Carlo simulation into its BSM option-pricing model to calculate the fair value of stock-based awards granted to its India employees subsequent to the repeal.

The assumptions used and the resulting estimates of fair value for employee stock options during the three and nine months ended September 30, 2009, and 2008, were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Employee Stock Options:				
Volatility factor	43% - 46%	45% - 47%	43% - 58%	43% - 48%
Risk-free interest rate	0.4% - 4.2%	2.2% - 4.1%	0.4% -4.2%	1.7% - 4.4%
Expected life (years)	4.3 - 5.7	3.6 - 5.7	4.3 - 5.8	3.6 - 5.7
Dividend yield				
Fair value per share	$ 9.52 - $10.25	$ 8.49 - $10.45	$ 6.02 - $10.49	$ 8.32 - $10.88

The assumptions used and the resulting estimates of weighted average fair value per share under the employee stock purchase plan during the three and nine months ended September 30, 2009, and 2008, were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Employee Stock Purchase Plan:				
Volatility factor	46%	46%	54%	47%
Risk-free interest rate	0.3%	1.9%	0.4%	2.0%
Expected life (years)	0.5	0.5	0.5	0.5
Dividend yield				
Weighted-average fair value per share	$ 7.35	$ 7.39	$ 5.54	$ 7.60

The Company determines the fair value of its RSUs and performance share awards based upon the fair market value of the shares of the Company s common stock at the date of grant. The Company expenses the cost of RSUs ratably over the period during which the restrictions lapse. In addition, the Company estimates stock compensation expense for its performance share awards based on the vesting criteria and only recognized expense for the portions of such awards for which annual targets have been set. The weighted average fair value per share of RSUs and performance share awards granted during these periods were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted-average fair value per share:				
RSUs	$ 25.86	$ 26.51	$ 16.09	$ 25.55

Performance share awards	$ 26.30	$ 25.90	$ 17.18	$ 25.57

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The Company s stock-based compensation expense associated with stock options, employee stock purchases, RSUs, and performance share awards is recorded in the following cost and expense categories for the three and nine months ended September 30, 2009, and 2008, (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of revenues Product	$ 0.9	$ 0.8	$ 2.8	$ 2.2
Cost of revenues Service	2.9	2.4	8.5	7.0
Research and development	14.3	12.8	44.0	34.9
Sales and marketing	10.7	10.9	30.9	26.8
General and administrative	5.5	1.9	15.2	8.0
Total	$ 34.3	$ 28.8	$ 101.4	$ 78.9

During the three and nine months ended September 30, 2009, the Company recorded stock-based compensation expense related to employee stock options in the amount of $20.5 million and $60.0 million, respectively, and during the three and nine months ended September 30, 2008, the Company recorded stock-based compensation expense related to employee stock options in the amount of $15.1 million and $42.5 million, respectively. As of September 30, 2009, approximately $137.0 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted average period of approximately 2.7 years.

The Company recorded stock-based compensation expense related to its employee stock purchase plans in the amount of $3.5 million and $11.1 million for the three and nine months ended September 30, 2009, respectively, and $3.6 million and $10.2 million for the three and nine months ended September 30, 2008, respectively.

The Company recognized stock compensation expense of $10.3 million and $30.3 million for the three and nine months ended September 30, 2009, and $10.1 million and $26.2 million for the three and nine months ended September 30, 2008, respectively, in connection with RSUs and performance share awards. As of September 30, 2009, approximately $59.2 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs and unvested performance share awards will be recognized over a weighted-average period of approximately 2.4 years.

401(k) Plan

Juniper Networks maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees meeting the eligibility requirement, as defined, may contribute up to the statutory limits of the year. The Company has matched employee contributions since January 1, 2001. The Company currently matches 25% of all eligible employee contributions. All matching contributions vest immediately. In the three and nine months ended September 30, 2009, the Company s matching contributions to the plan totaled $2.8 million and $9.8 million, respectively. In the three and nine months ended September 30, 2008, the Company s matching contributions to the plan totaled $2.6 million and $9.1 million, respectively.

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Deferred Compensation Plan

In July 2008, the Company formed a non-qualified deferred compensation plan (NQDC) plan, which 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 plan assets are included within investments and offsetting obligations are included within accrued compensation on the condensed consolidated balance sheet. 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 interest and other income, net and the offsetting compensation expense are recorded in operating expenses in the consolidated statements of operations. The deferred compensation liability under this plan was approximately $4.1 million and $1.0 million as of September 30, 2009, and December 31, 2008, respectively.

Note 12. Segments

The Company s chief operating decision maker (CODM) allocates resources and assesses performance based on financial information by the Company s business groups. The Company s operations are organized into two reportable segments: Infrastructure and Service Layer Technologies (SLT). The Infrastructure segment includes products from the E-, M-, MX-, and T-series router product families, EX-series switching products, as well as the circuit-to-packet products. The SLT segment consists primarily of Firewall virtual private network (Firewall) systems and appliances, dynamic services gateways, secure sockets layer virtual private network (SSL) appliances, intrusion detection and prevention appliances (IDP), the J-series router product family, and wide area network (WAN) optimization platforms.

The primary financial measure used by the CODM in assessing performance of the segments is segment operating income, which includes certain cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses. In the three and nine months ended September 30, 2009, and 2008, the CODM did not allocate certain miscellaneous expenses to its segments even though such expenses were included in the Company s management operating income.

For arrangements with both Infrastructure and SLT products and services, revenue is attributed to the segment based on the underlying purchase order, contract, or sell-through report. Direct costs and operating expenses, such as standard costs, 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 standard costs. Indirect operating expenses, such as sales, marketing, business development, and general and administrative expenses are generally allocated to each segment based on factors including headcount, usage, and revenue. The CODM does not allocate stock-based compensation, amortization of purchased intangible assets, restructuring and impairment charges, gains or losses on equity investments, other net income and expense, income taxes, as well as certain other charges to the segments.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenues:				
Infrastructure:				
Product	$ 472.0	$ 610.3	$ 1,396.2	$ 1,714.9
Service	123.2	119.0	350.1	308.7
Total Infrastructure revenues	595.2	729.3	1,746.3	2,023.6
Service Layer Technologies:				
Product	162.1	156.7	432.7	450.2
Service	66.6	61.0	195.5	175.1
Total Service Layer Technologies revenues	228.7	217.7	628.2	625.3
Total net revenues	823.9	947.0	2,374.5	2,648.9
Operating income:				
Infrastructure	126.9	216.9	358.8	603.5
Service Layer Technologies	44.4	20.7	79.6	39.2
Total segment operating income	171.3	237.6	438.4	642.7
Other corporate (1)				(4.7)
Total management operating income	171.3	237.6	438.4	638.0
Amortization of purchased intangible assets	(2.7)	(6.5)	(13.4)	(42.4)
Stock-based compensation expense	(34.3)	(28.8)	(101.4)	(78.9)
Stock-based payroll tax expense	(0.8)	(0.3)	(1.5)	(2.6)
Restructuring charges	(4.5)		(16.3)	
Other charges	(1.0)		(1.0)	(9.0)
Total operating income	128.0	202.0	304.8	505.1
Interest and other income, net	1.7	9.7	6.6	40.5
Loss on minority equity investments			(3.3)	(1.5)
Income before income taxes	$ 129.7	$ 211.7	$ 308.1	$ 544.1

(1) Other corporate charges include severance and related costs associated with workforce

rebalancing activities, which are not included in business segment results.

Depreciation expense allocated to the Infrastructure segment was $24.1 million and $69.1 million in the three and nine months ended September 30, 2009, respectively, and $22.7 million and $64.3 million in the three and nine months ended September 30, 2008, respectively. The depreciation expense allocated to the SLT segment was $9.7 million and $29.4 million in the three and nine months ended September 30, 2009, respectively, and $9.6 million and $27.9 million in the three and nine months ended September 30, 2008, respectively.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Americas:				
United States	$ 380.3	$ 421.3	$ 1,045.4	$ 1,135.3
Other	42.5	57.2	128.0	149.8
Total Americas	422.8	478.5	1,173.4	1,285.1
Europe, Middle East and Africa	243.2	277.6	698.3	803.3
Asia Pacific	157.9	190.9	502.8	560.5
Total	$ 823.9	$ 947.0	$ 2,374.5	$ 2,648.9

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Verizon accounted for 10.4% of the Company s net revenues for the three months ended September 30, 2009, and no single customer accounted for 10% or more of the Company s net revenues for the nine months ended September 30, 2009. Verizon accounted for 13.3% of the Company s net revenues for the three months ended September 30, 2008, and no single customer accounted for 10.0% or more of the Company s net revenues for the nine months ended September 30, 2008.

The Company tracks assets by physical location. The majority of the Company s assets, including property and equipment, were attributable to its U.S. operations as of September 30, 2009, and December 31, 2008. 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 13. Income Taxes

The Company recorded tax provisions of $45.9 million and $63.2 million for the three months ended September 30, 2009, and 2008, or effective tax rates of 35% and 30%, respectively. The Company recorded tax provisions of $214.0 million and $164.8 million for the nine months ended September 30, 2009, and 2008, or effective tax rates of 69% and 30%, respectively. The effective tax rate for the three months ended September 30, 2009, is substantially similar to the federal statutory rate of 35% and differs from the effective tax rate for the same period in 2008, primarily due to a $4.6 million income tax charge resulting from an investigation by the India tax authorities. The effective tax rate for the nine months ended September 30, 2009, differs from the federal statutory rate of 35% and the rate for the same period in 2008, primarily due to the following income tax charges: (i) the $4.6 million related to the investigation by the India tax authorities; (ii) $52.1 million resulted from a change in the Company s unrecognized tax benefits related to share-based compensation due to a decision reached by the U.S. Court of Appeals for the Ninth Circuit in *Xilinx Inc. v. Commissioner* in the Company s second quarter of 2009; and (iii) $61.8 million resulted from changes in California income tax laws that were enacted during the Company s first quarter of 2009. The effective rate impact from these charges was partially offset by the federal Research and Development (R&D) credit and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates during the three and nine months ended September 30, 2009. The effective tax rate for the three and nine months ended September 30, 2008, differed from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates.

The gross unrecognized tax benefits increased by approximately $67.5 million for the nine months ended September 30, 2009, of which $66.2 million, if recognized, would affect the effective tax rate. Gross unrecognized tax benefits have decreased approximately $6.6 million during the three months ended September 30, 2009. The decrease relates to a $12.8 million adjustment by the Internal Revenue Service (IRS) to the Company s fiscal year 2004 research credit carryforwards offset primarily by additional charges related to share-based compensation. Interest and penalties accrued for the nine months ended September 30, 2009, were approximately $13.7 million. Approximately $4.6 million of the increase in interest and penalties, occurred during the three months ended September 30, 2009, and is related to the India tax matter discussed below.

The Company is currently under examination by the IRS for the 2004 tax year, and in July 2009, the IRS informed the Company that it intends to open an audit for the 2005 and 2006 tax years. The Company is also subject to two separate ongoing examinations by the India tax authorities for the 2004 and 2004 through 2008 tax years, respectively, and has received an inquiry from the Hong Kong tax authorities for the 2002 through 2006 tax years. Additionally, the Company has not reached a final resolution with the IRS on an adjustment it proposed for the 1999 and 2000 tax years. The Company is not aware of any other examination by taxing authorities in any other major jurisdictions in which it files income tax returns as of September 30, 2009.

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In 2009, as part of the on-going 2004 IRS audit, the Company received a proposed adjustment related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. In March 2009, the Company received an assessment from the Hong Kong tax authorities specifically related to an inquiry of the 2002 tax year. In December 2008, the Company received a proposed adjustment from the India tax authorities related to the 2004 tax year.

In July 2009, the India tax authorities commenced a separate investigation of our 2004 through 2008 tax returns and are disputing the Company s determination of taxable income due to the cost basis of certain fixed assets. As referenced above, the Company recorded $4.6 million in penalties and interest in the quarter ended September 30, 2009 relevant to this matter. The Company understands that the India tax authorities may issue an initial assessment that is substantially higher than this amount. As a result, in accordance with the administrative and judiciary process in India, the Company may be required to make payments that are substantially higher than the amount accrued in order to ultimately settle this issue. The Company strongly believes that any assessment it may receive in excess of the amount accrued would be inconsistent with applicable India tax laws and intends to defend this position vigorously. The Company is pursuing all available administrative procedures relative to the matters referenced above. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to these proposed adjustments and the ultimate resolution of these matters is unlikely to have a material effect on its consolidated financial condition or results of operations; however there is still a possibility that an adverse outcome of these matters could have a material effect on its consolidated financial condition and results of operations. For more information, please see Note 14 *Commitments and Contingencies* under the heading IRS Notices of Proposed Adjustments.

The Company does not expect complete resolution of any IRS, or other audits in significant foreign or state jurisdictions within the next 12 months. However, it is reasonably possible that the Company may reach agreement with certain issues and as a result, the amount of the liability for unrecognized tax benefits may decrease by approximately $4.6 million within the next 12 months.

Note 14. Commitments and Contingencies

Commitments

The following table summarizes the Company s principal contractual obligations as of September 30, 2009, (in millions):

	Total	2009	2010	2011	2012	2013	Thereafter	Other
Operating leases	$ 185.4	$ 13.8	$ 52.7	$ 44.5	$ 37.6	$ 20.9	$ 15.9	$
Sublease rental income	(0.8)	(0.2)	(0.6)					
Purchase commitments	120.3	120.3						
Tax liabilities	173.3		4.6					168.7
Other contractual obligations	45.6	7.3	17.3	13.5	5.6	1.9		
Total	$ 523.8	$ 141.2	$ 74.0	$ 58.0	$ 43.2	$ 22.8	$ 15.9	$ 168.7

Operating Leases

Juniper Networks leases its facilities under operating leases that expire at various times, the longest of which expires in January 2017. Future minimum payments under the non-cancelable operating leases, net of committed sublease income, totaled $184.6 million as of September 30, 2009. Rent expense for the three months ended September 30, 2009, and 2008 was $14.2 million and $14.4 million, respectively, and $42.6 million and $43.3 million for the nine

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months ended September 30, 2009, and 2008, respectively. Subsequent to September 30, 2009, the Company amended three existing lease agreements for the Company s corporate headquarters facilities located in Sunnyvale, California. See *Operating Lease Extensions* in Note 15 Subsequent Events in Notes to Condensed Consolidated Financial Statements in Item I of this Form 10-Q for further discussion of amended lease obligations.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by the Company place non-cancelable, non-returnable (NCNR) orders for components based on the Company s build forecasts. As of September 30, 2009, there were NCNR component orders placed by the contract manufacturers with a value of $120.3 million. The contract manufacturers use the components to build products based on the Company s forecasts and purchase orders that the Company has received from customers. Generally, the Company does not own the components and title to the products transfers from the contract manufacturers to the Company and immediately to the Company s customers upon delivery at a designated shipment location. If the components remain unused or the products remain unsold for specified period, the Company may incur carrying charges or obsolete materials charges for components that the contract manufacturers purchased to build products to meet the Company s forecast or customer orders. As of September 30, 2009, the Company had accrued $29.9 million based on its estimate of such charges.

Tax Liabilities

As of September 30, 2009, the Company had $173.3 million included in long-term liabilities in the condensed consolidated balance sheet for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to $168.7 million of such liabilities due to uncertainties in the timing of tax audit outcomes.

Other Contractual Obligations

As of September 30, 2009, other contractual obligations consisted primarily of an indemnity-related escrow amount of $2.3 million, a five-year $36.4 million data center hosting agreement, a three-year $22.7 million software subscription, and a joint development agreement with a third-party for development of network-related technology, which requires quarterly payments of $3.5 million through January 2010. The Company records the quarterly payment to the third-party developer as research and development expense in its condensed consolidated statements of operations until the technology under development has reached technological feasibility. Pursuant to the joint development agreement, in exchange for each party s respective contributions to the development effort as well as the consideration payable by the Company, each party will obtain a license to the technology that result from the development for use in certain of their respective product lines. As of September 30, 2009, $21.0 million remained unpaid under the data center hosting agreement with the remaining commitment expected to be paid through the end of April 2013 and $15.3 million remained unpaid under the software subscription agreement with the remaining commitment expected to be paid through the end of January 2011.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company s products infringe the intellectual property rights of a third party. Other guarantees or indemnification arrangements include guarantees of product and service performance, guarantees related to third-party customer financing arrangements, and standby letters of credit for certain lease facilities. As of September 30, 2009, the Company had $34.4 million in guarantees and standby letters of credit and recorded a liability of $23.5 million related to a third-party customer-financing guarantee. As of

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December 31, 2008, the Company had not recorded a liability related to its guarantees and indemnification arrangements.

Legal Proceedings

The Company is subject to legal claims and litigation arising in the ordinary course of business, such as employment or intellectual property claims, including the matters described below. The outcome of any such matters is currently not determinable. Although the Company does not expect that any such legal claims or litigation will ultimately have a material adverse effect on its consolidated financial condition or results of operations, an adverse result in one or more of such matters could negatively affect the Company s consolidated financial results in the period in which they occur.

Federal Securities Class Action

On July 14, 2006 and August 29, 2006, two purported class actions were filed in the Northern District of California against the Company and certain of the Company s current and former officers and directors. On November 20, 2006, the Court consolidated the two actions as *In re Juniper Networks, Inc. Securities Litigation,* No. C06-04327-JW, and appointed the New York City Pension Funds as lead plaintiffs. The lead plaintiffs filed a Consolidated Class Action Complaint on January 12, 2007, and filed an Amended Consolidated Class Action Complaint on April 9, 2007. The Amended Consolidated Complaint alleges that the defendants violated federal securities laws by manipulating stock option grant dates to coincide with low stock prices and issuing false and misleading statements including, among others, incorrect financial statements due to the improper accounting of stock option grants. The Amended Consolidated Complaint asserts claims for violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 on behalf of all persons who purchased or otherwise acquired Juniper Networks publicly-traded securities from July 12, 2001, through and including August 10, 2006. Plaintiffs seek monetary damages in an unspecified amount. On June 7, 2007, the defendants filed a motion to dismiss certain of the claims, and a hearing was held on September 10, 2007. On March 31, 2008, the Court issued an order granting in part and denying in part the defendants motion to dismiss. The order dismissed with prejudice plaintiffs section 10(b) claim to the extent it was based on challenged statements made before July 14, 2001. The order also dismissed, with leave to amend, plaintiffs section 10(b) claim against Pradeep Sindhu. The order upheld all of plaintiffs remaining claims. The order gave plaintiffs until May 1, 2008, to file an amended complaint. Plaintiffs chose not to amend their complaint.

On September 25, 2009, the Court certified a plaintiff class consisting of all persons and entities who purchased or otherwise acquired the Company s securities from July 11, 2003 to August 10, 2006 inclusive, and were damaged thereby, including those who received or acquired Juniper Networks common stock issued pursuant to the registration statement on SEC Form S-4, dated March 10, 2004, for the Company s merger with NetScreen Technologies Inc.; and purchasers of Zero Coupon Convertible Senior Notes due June 15, 2008 issued pursuant to a registration statement on SEC Form S-3 dated November 20, 2003. Excluded from the Class are the Defendants and the current and former officers and directors of the Company, their immediate families, their heirs, successors, or assigns and any entity controlled by any such person.

Calamore Proxy Statement Action

On March 28, 2007, an action titled *Jeanne M. Calamore v. Juniper Networks, Inc., et al.,* No. C-07-1772-JW, was filed by Jeanne M. Calamore in the Northern District of California against the Company and certain of the Company s current and former officers and directors. The complaint alleges that the proxy statement for the Company s 2006 Annual Meeting of Stockholders contained various false and misleading statements in that it failed to disclose stock option backdating information. As a result, the plaintiff seeks preliminary and permanent injunctive relief with respect to the Company s 2006 Equity Incentive Plan, including seeking to invalidate the plan and all equity awards granted and grantable thereunder. On May 21, 2007, the Company filed a motion to dismiss and the

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plaintiff filed a motion for preliminary injunction. On July 19, 2007, the Court issued an order denying the plaintiff s motion for a preliminary injunction and dismissing the complaint in its entirety with leave to amend. The plaintiff filed an amended complaint on August 27, 2007, and the defendants filed a motion to dismiss on October 9, 2007. On August 13, 2008, the Court issued an order granting the defendants motion to dismiss with prejudice, and entered final judgment in favor of defendants. On September 9, 2008, the plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Ninth Circuit. The plaintiff s appeal was fully briefed and the Court of Appeals heard oral argument on the appeal on October 7, 2009. No decision has been issued yet by the Court of Appeals.

IPO Allocation Case

In December 2001, a class action complaint was filed in the United States District Court for the Southern District of New York against the Goldman Sachs Group, Inc., Credit Suisse First Boston Corporation, FleetBoston Robertson Stephens, Inc., Royal Bank of Canada (Dain Rauscher Wessels), SG Cowen Securities Corporation, UBS Warburg LLC (Warburg Dillon Read LLC), Chase (Hambrecht & Quist LLC), J.P. Morgan Chase & Co., Lehman Brothers, Inc., Salomon Smith Barney, Inc., Merrill Lynch, Pierce, Fenner & Smith, Incorporated (collectively, the Underwriters), Juniper Networks, and certain of Juniper Networks officers. This action was brought on behalf of purchasers of the Company s common stock in its initial public offering in June 1999 and the Company s secondary offering in September 1999.

Specifically, among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company s initial public offering and the Company s subsequent secondary offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation*, 21 MC 92. In April 2002, the plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The defendants in the coordinated proceeding filed motions to dismiss. In October 2002, the Company s officers were dismissed from the case without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part the motion to dismiss, but declined to dismiss the claims against the Company.

In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the Court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the Appellate Court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings (the action involving the Company is not one of the six test cases). Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. The plaintiffs have filed amended master allegations and amended complaints in the six focus cases. On March 26, 2008, the Court largely denied the defendants motion to dismiss the amended complaints in the six test cases.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an Opinion and Order granting final approval of the settlement. Under the settlement, the insurers are to pay the full amount of settlement share allocated to the Company, and the Company will bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, will receive complete dismissals from the case. It is likely certain persons will seek to appeal the order approving the settlement.

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16(b) Demand

On October 3, 2007, a purported Juniper Networks shareholder filed a complaint for violation of Section 16(b) of the Securities Exchange Act of 1934, which prohibits short-swing trading, against the Company s IPO underwriters. The complaint, Vanessa Simmonds v. The Goldman Sachs Group, et al., Case No. C07-015777, in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company in this matter.

Menlo Equities

In December 2008, Menlo Equities Development Company II, LLC (Menlo Equities) initiated in an arbitration proceeding against the Company. Menlo Equities and the Company are members of Menlo/Juniper Networks LLC and are parties to an Operating Agreement and a Development Services Agreement relating to certain real estate in Sunnyvale, California purchased in 2000. The dispute relates to whether the Company would be obligated to pay Menlo Equities certain fees under the agreements, if and when the real estate is developed or sold. Menlo Equities asserted that it is entitled to immediate payment of damages of approximately $29.0 million plus attorney s fees as a result of a repudiation and breach of the agreements. The Company denies Menlo Equities allegations. An arbitration hearing was conducted in June 2009, and the arbitrator issued an interim decision in September that ruled in Menlo s favor in most areas. However, the interim decision contained no specific monetary award and concluded that the Company should pay the buy out amounts under the agreements, if and when the contract contingencies on which they become due occur. The parties are seeking clarification of the interim award: (i) Menlo Equities contends that it is entitled to immediate payment of approximately $8.3 million, and (ii) the Company contends that no amount is due under the interim award. In addition, Menlo Equities has requested attorney s fees of approximately $0.5 million. A final decision is expected prior to the end of the calendar year.

IRS Notices of Proposed Adjustments

In 2007, the IRS opened an examination of the Company s U.S. federal income tax and employment tax returns for the 2004 fiscal year. Subsequently, the IRS extended their examination of the Company s employment tax returns to include fiscal years 2005 and 2006. As of September 30, 2009, the IRS has not yet concluded its examinations of these returns. In September 2008, as part of its on-going audit of the U.S. federal income tax return, the IRS issued a Notice of Proposed Adjustment (NOPA) regarding the Company s business credits. The Company believes that it has adequately provided for any reasonable foreseeable outcome related to this proposed adjustment.

In July 2009, the Company received a NOPA from the IRS claiming that the Company owes additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. The asserted changes to the Company s 2004 tax year would affect the Company s income tax liabilities in tax years subsequent to 2003. Because of the NOPA, the estimated incremental tax liability would be approximately $807.0 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS, which will cause the matter to be referred to the Appeals Division of the IRS. The Company strongly believes the IRS position with regard to this matter is inconsistent with applicable tax laws and existing Treasury regulations, and that its previously reported income tax provision for the year in question is appropriate. However, there can be no assurance that this matter will be resolved in the Company s favor. Regardless of whether this matter is resolved in the Company s favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While the Company believes it has provided adequately for this matter, there is still a possibility that an adverse outcome of the matter could have a material effect on its results of operations and financial condition.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The Company has not reached a final resolution with the IRS on an adjustment the IRS proposed for the 1999 and 2000 tax years. The Company is also under routine examination by certain state and non-U.S. tax authorities. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these audits.

Note 15. Subsequent Event

Stock Repurchases

Subsequent to September 30, 2009, through the filing of this report, the Company repurchased and retired approximately 1.6 million shares of its common stock for approximately $42.0 million under its 2008 Stock Repurchase program at an average purchase price of $26.69 per share. The Company s 2008 Stock Repurchase Program had remaining authorized funds of $489.0 million as of the report filing date. Purchases under the Company s 2008 Stock Repurchase Program are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

Operating Lease Extensions

In October 2009, the Company amended three existing leases for the Company s corporate headquarters facilities in Sunnyvale, California. Each lease was amended to: (i) extend the underlying lease term, and (ii) establish new monthly base rent payments for periods after November 1, 2009. The new monthly base rent payments represent a significant reduction in base rent that would have been payable for the previously remaining terms of each of the underlying leases. The Company s operating lease obligations will increase by $128.1 million under these amended lease agreements with expiration dates ranging from June 2020 through November 2022.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q (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. (the Company) that are based on current expectations, estimates, forecasts, and projections about the industry in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, would, could, intends, plans, believes, seeks, such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled Risk Factors in Item 1A of Part II and elsewhere, and in other reports we file with the Securities and Exchange Commission (SEC), specifically our most recent Annual Report on Form 10-K. While forward-looking statements are based on reasonable expectations of our management at the time that they are made, you should not rely on them. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, which have been prepared in accordance with 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 condensed consolidated 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 on-going 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 stock-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. 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 Quarterly Report, we have provided an executive overview and a summary of the significant events that affected the most recent fiscal quarter and a discussion of the nature of our operating expenses. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 2, our Risk Factors section included in Item 1A of Part II, and our unaudited Condensed Consolidated Financial Statements and notes included in Item 1 of Part I of this Quarterly Report.

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Executive Overview

Our performance for the three and nine months ended September 30, 2009, reflects continued weakness in market demand for networking and security products, compared to the same periods in 2008, primarily due to our customers reaction to the weakened global economy. The decrease in revenues was primarily due to the slowdown in the U.S.; Europe, Middle East, and Africa (EMEA); and Asia Pacific (APAC) service provider market, partially offset by strength in the U.S. enterprise market in the third quarter of 2009. While the global economy continues to challenge the marketplace, we did see some signs that visibility in key areas of our business is beginning to improve. In the third quarter of 2009, our cross-selling efforts resulted in good year-over-year revenue growth in the enterprise market as we continue to invest in innovation and customer satisfaction, control operating costs, and navigate through this challenging economic period.

The following table provides an overview of our key financial metrics for the three and nine months ended September 30, 2009, and 2008:

(In millions, except per share amounts and percentages)	Three Months Ended September 30, 2009	2008	$ Change	% Change	Nine Months Ended September 30, 2009	2008	$ Change	% Change
Net revenues	$ 823.9	$ 947.0	$ (123.1)	(13%)	$ 2,374.5	$ 2,648.9	$ (274.4)	(10%)
Operating income	$ 128.0	$ 202.0	$ (74.0)	(37%)	$ 304.8	$ 505.1	$ (200.3)	(40%)
Percentage of net revenues	*15.5%*	*21.3%*			*12.8%*	*19.1%*		
Net income	$ 83.8	$ 148.5	$ (64.7)	(44%)	$ 94.1	$ 379.3	$ (285.2)	(75%)
Percentage of net revenues	*10.2%*	*15.7%*			*4.0%*	*14.3%*		
Net income per share								
Basic	$ 0.16	$ 0.27	$ (0.11)	(41%)	$ 0.18	$ 0.71	$ (0.53)	(75%)
Diluted	$ 0.16	$ 0.27	$ (0.11)	(41%)	$ 0.18	$ 0.67	$ (0.49)	(73%)

Net revenues: Our net revenues decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to reduced demand for our products particularly in the Infrastructure segment, which is consistent with the overall decline in the global economy, partially offset by an increase for our products in SLT segment. Net revenues from enterprise customers increased 16% while net revenues from service providers decreased 24% in the three months ended September 30, 2009, compared to the same period in 2008. In the nine months ended September 30, 2009, net revenues from enterprise customers increased 14% while net revenues from service providers decreased 19%, compared to the same period in 2008. Net revenues decreased in all regions in the three and nine months ended September 30, 2009, compared to the same periods in 2008.

Operating Income: Our operating income as well as operating margin as a percentage of net revenues decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008. These decreases were, in large part, due to the decrease in revenues, partially offset by our efforts to control expenses and improve operational efficiencies in the three and nine months ended September 30, 2009, compared to the same periods in 2008.

Net Income and Net Income Per Share: The decrease in net income in the three months ended September 30, 2009, compared to the same period in 2008, is primarily due to a decrease in revenue and a non-recurring income tax charge of $4.6 million related to our subsidiary in India. The decrease in net income in the nine months ended September 30, 2009, compared to the same period in 2008, is primarily due to a decrease in revenue and total non-recurring income tax charges of $113.9 million. Of the $113.9 million, $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 in the second quarter of 2009, and a $61.8 million non-cash charge related to the impairment of certain net deferred tax assets resulting from a change in California income tax law

enacted during the first quarter of 2009.

Other Financial Highlights: Total deferred revenue increased $52.9 million in the nine months ended September 30, 2009, primarily due to the growth in our installed equipment base for maintenance and customer

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support contracts. During the nine months ended September 30, 2009, we generated cash of $536.5 million from our operations, while we used $830.0 million for our investing activities and $107.0 million for our financing activities.

Significant Events

Business and Market Environment

We design, develop, and sell products and services that together provide our customers with high-performance network infrastructure that creates responsive and trusted environments for accelerating the deployment of services and applications over a single Internet Protocol (IP)-based network. We serve the high-performance networking requirements of global service providers, enterprises, governments, and research and education institutions that view the network as critical to their success. High-performance networking is designed to provide fast, reliable and secure access to applications and services at scale. We offer a high-performance network infrastructure that includes IP routing, Ethernet switching, security and application acceleration solutions, as well as partnerships designed to extend the value of the network and worldwide services and support designed to optimize customer investments.

We continue to deliver new and innovative, high-performance network infrastructure solutions. We have extended the infrastructure for enterprises and started shipping the SRX100 dynamic service gateway platforms. In addition, for service providers we began shipping our TX Matrix Plus, which interconnects multiple T1600 core routers to create a single multi-chassis routing node. On the partnership front, we recently announced entry into an original equipment manufacturer (OEM) agreement with Dell to offer our networking solutions under Dell s PowerConnect brand.. In addition, we recently expanded our OEM relationship with IBM to include our SRX series services gateways.

The recent weakness in the global economy has affected the purchasing behavior of our customers, particularly among service providers, and caused delays or reductions in purchase decisions, which led to lower revenues in our third quarter of 2009 compared to the same period of 2008, as well as limited visibility regarding future business. If economic growth in the U.S. and other countries economies declines and/or fails to recover, our customers may further delay or reduce their purchases, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, and increased price competition. We continue to plan to both invest in key research and development projects that we believe will lead to future growth and remain focused on continuing our efforts to contain other costs and allocate resources effectively.

Listing on the New York Stock Exchange

On October 6, 2009, we submitted an application to transfer the listing of our Company s common stock to the New York Stock Exchange (NYSE) from the NASDAQ Global Select Market (NASDAQ). Effective October 29, 2009, we transferred our listing from the NASDAQ to the NYSE under the symbol JNPR.

Stock Repurchase Activity

Our Board approved a stock repurchase program in March 2008 (the 2008 Stock Repurchase Program), which authorized us to purchase up to $1.0 billion of our common stock. Under this program, we repurchased approximately 2.9 million shares of our common stock at an average price of $24.67 per share for a total purchase price of $71.9 million in the three months ended September 30, 2009, and approximately 12.6 million shares of our common stock at an average price of $19.18 per share for a total purchase price of $241.1 million in the nine months ended September 30, 2009. As of September 30, 2009, we have repurchased and retired approximately 22.3 million shares of common stock under the 2008 Stock Repurchase Program and the program had remaining authorized funds of $531.0 million.

All shares of common stock purchased under the 2008 Stock Repurchase Program have been retired. Future share repurchases under our 2008 Stock Repurchase Program will be subject to a review of the circumstances in place at

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the 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.

Backlog

At any given time, we have orders for products that have not been shipped and for services that have not yet been performed for various reasons. Because we believe industry practice would allow customers to cancel or change orders with limited advance notice prior to shipment or performance, as well as our own history of allowing such changes and cancellations, we do not consider this backlog to be firm and do not believe our backlog information is necessarily indicative of future revenue.

Manufacturing

Most of our manufacturing, repair, and supply chain operations are outsourced to independent contract manufacturers. Accordingly, most of our cost of revenues consists of payments to our independent contract manufacturers for standard product costs. The independent contract manufacturers produce our products using design specifications, quality assurance programs, and standards that we establish. Our independent contract manufacturers manufacture our products primarily in China, Malaysia, Mexico, and the U.S. We have employees in our manufacturing and operations organization who manage relationships with our contract manufacturers, manage our supply chain, and monitor product testing and quality. We generally do not own the components and title to products transfers from the contract manufacturers to us and immediately to our customers upon shipment.

The contract manufacturers procure components based on our build forecasts and if actual component usage is lower than our forecasts, we may be, and have been in the past, liable for carrying or obsolete material charges.

In recent years, an increasing amount of our products has been manufactured in Asia, and we anticipate that a larger percentage of our products will be produced outside the U.S. in the future. Our contracts generally provide for passage of title and risk of loss at the designated point of shipment to our customer. The manufacturing of products in Asia for shipment to customers in EMEA and the Americas resulted in additional shipment logistics, freight and timing issues for us, as well as those customers. In an ongoing effort to balance our and our customers needs, we have made changes on occasion to the payment of freight and the point of shipment with respect to products shipped from Asia. These changes affect shipping costs and the timing of revenue recognition of those shipments.

Nature of Expenses

Employee-related costs have historically been the primary driver of our operating expenses, and we expect this trend to continue. Employee-related costs include items such as wages, commissions, bonuses, vacation, benefits, and stock-based compensation. We increased our headcount by 3% to 7,034 employees as of September 30, 2009, from 6,830 employees as of September 30, 2008, primarily in the research and development organization. The headcount growth has increased primarily in regions with lower operating costs per employee. Our headcount slightly increased by 20 employees in the first nine months of 2009, primarily due to our continued effort to manage operating expenses.

Stock-based compensation, including related payroll tax expense, was $35.1 million and $102.9 million in the three and nine months ended September 30, 2009, respectively, and $29.1 million and $81.5 million in the three and nine months ended September 30, 2008, respectively. As of September 30, 2009, approximately $137.0 million of unrecognized stock-based compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted average period of approximately 2.7 years. In addition, as of September 30, 2009, approximately $59.2 million of unrecognized stock-based compensation cost, adjusted for estimated forfeitures, related to unvested RSUs and unvested performance share awards will be recognized over a weighted average period of approximately 2.4 years.

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Facility and information technology departmental costs are allocated to other departments based on usage and headcount, respectively. Facility and information technology related costs decreased by $1.4 million and $2.2 million in the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008, primarily due to a decrease in headcount and our continued efforts to control costs in our internal operations. Facility and information technology related headcount was 243 employees as of September 30, 2009, compared to 263 employees as of September 30, 2008.

Although our revenue transactions are primarily denominated in U.S. Dollars, cost of service revenues and operating expenses are denominated in U.S. Dollars, the British Pound, the Euro, Indian Rupee, and Japanese Yen as well as other foreign currencies. Changes in related currency exchange rates may affect our operating results. We use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to cost of service revenues and operating expenses. 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 appropriate expense line item of the condensed consolidated statements of operations to which the hedged transaction relates. Any ineffectiveness of the hedging instruments is reported in interest and other income, net on our condensed consolidated statements of operations. The decrease in expenses including cost of service revenues, research and development, sales and marketing, and general and administrative expenses, due to foreign currency fluctuation, was approximately 2% and 5% in each of the three- and nine-month periods ended September 30, 2009, compared with the same periods in 2008.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. 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. 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 condensed 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.

Revenue Recognition

Our products are generally integrated with software that is essential to the functionality of our equipment. Additionally, we provide unspecified upgrades and enhancements related to our integrated software through our maintenance contracts for most of our products. Accordingly, we account for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 985-605, *Software Revenue Recognition* (formerly, Statement of Position No. 97-2, *Software Revenue Recognition).*

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

Persuasive evidence of an arrangement exists. We generally rely upon sales contracts, or agreements and customer purchase orders, to determine the existence of an arrangement.

Delivery has occurred. We use shipping terms and related documents or written evidence of customer acceptance, when applicable, to verify delivery or performance. In instances where we have outstanding obligations related to product delivery or the final acceptance of the product, revenue is deferred until all the delivery and acceptance criteria have been met.

Sales price is fixed or determinable. We assess whether the sales price is fixed or determinable based on the payment terms and whether the sales price is subject to refund or adjustment.

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Collectability is reasonably assured. We assess collectability based on the creditworthiness of the customer as determined by our credit checks and the customer s payment history. We record accounts receivable net of allowance for doubtful accounts, estimated customer returns, and pricing credits.

For arrangements with multiple elements, such as sales of products that include services, we allocate revenue to each element using the residual method based on the vendor-specific objective evidence (VSOE) of fair value of the undelivered items. 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. VSOE of fair value is based on the price charged when the element is sold separately. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. If VSOE of fair value of one or more undelivered items does not exist, revenue 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. We account for multiple agreements with a single customer as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement. Our ability to recognize revenue in the future may be affected if actual selling prices are significantly less than fair value. In addition, our ability to recognize revenue in the future could be impacted by conditions imposed by our customers.

For sales to direct end-users and value-added resellers, we recognize product revenue upon transfer of title and risk of loss, which is generally upon shipment. It is our practice to identify an end-user prior to shipment to a value-added reseller. For our end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. A portion of our sales is made through distributors under agreements allowing for pricing credits or rights of return. We recognize product revenue on sales made through these distributors upon sell-through as reported to us by the distributors. 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.

We record 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 included in rebate agreements, and other factors known at the time. Should actual product returns or pricing adjustments differ from our estimates, additional reductions to revenue may be required. In addition, we report revenue net of sales taxes.

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

We sell certain interests in accounts receivable on a non-recourse basis as part of a customer financing arrangement primarily with one major financing company. We record cash received under this arrangement in advance of revenue recognition as short-term debt.

Contract Manufacturer Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturers and a significant portion of our cost of revenues consists of payments to them. Our independent contract manufacturers procure components and manufacture our products based on our demand forecasts. These forecasts are based on our estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and marketing organizations, adjusted for overall market conditions. We establish a provision for inventory, carrying costs, and obsolete material exposures for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecasted, which may be caused by factors outside of our control, it could have an adverse impact on our gross

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margins and profitability. 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.

Warranty Costs

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 accrue for warranty costs as part of our cost of sales based on associated material costs, labor costs for customer support, 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, our warranty obligation is affected by product failure rates, use of materials, technical labor costs, and associated overhead incurred. Should actual product failure rates, use of materials, or service delivery costs differ from our estimates, we may incur additional warranty costs, which could reduce gross margin.

Goodwill and Purchased Intangible Assets

We make significant estimates and assumptions when evaluating impairment of goodwill and other intangible assets on an ongoing basis, as well as when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) future declines in our operating results, (ii) a sustained decline in our market capitalization, (iii) significant slowdown in the worldwide economy or the networking industry, or (iv) failure to meet our forecasted operating results. We evaluate these assets on an annual basis as of November 1 or more frequently if we believe indicators of impairment exist. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. In the process of our annual impairment review, we determine the fair value of our intangible assets based upon a weighting of market and income approaches. Under the market approach, we estimate fair value of our reporting units based on market multiples of revenue or earnings for comparable companies. Under the income approach, we calculate fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. The estimates we have used are consistent with the plans and estimates that we use to manage our business. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Stock-Based Compensation

We recognize stock-based compensation expense for all share-based payment awards including employee stock options, RSUs, performance share awards, and purchases under our Employee Stock Purchase Plan granted after December 31, 2005, and granted prior to but not yet vest as of December 31, 2005, in accordance with FASB ASC Topic 718, *Compensation Stock Compensation* (FASB ASC Topic 718) (formerly, Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment)*. Prior to the adoption of FASB ASC Topic 718, we accounted for stock-based compensation under the intrinsic value recognition provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). We valued compensation expense for expected-to-vest stock-based awards that were granted on or prior to December 31, 2005, under the multiple-option approach. We amortize these share-based payments using the accelerated attribution method. Subsequent to December 31, 2005, compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

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We utilize the Black-Scholes-Merton (BSM) option-pricing model and incorporate a Monte Carlo simulation when appropriate in order to determine the fair value of stock-based awards. The BSM model requires various highly subjective assumptions including volatility, expected option 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, the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that have not been exercised at the time.

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 we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those expected-to-vest shares. If our actual forfeiture rate is materially different from our estimate, our recorded stock-based compensation expense could be different.

Income Taxes

Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred tax assets will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in FASB ASC Topic 740, *Income Taxes* (FASB ASC Topic 740) (formerly, SFAS No. 109, *Accounting for Income Taxes and* Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109).* To the extent that we believe any amounts are not more likely than not to be realized, we record a valuation allowance to reduce our deferred tax assets. We believe it is more likely than not that future income from the reversal of the deferred tax liabilities and forecasted income will be sufficient to fully recover the remaining deferred tax assets. In the event we determine that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. Similarly, if we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in a positive adjustment to earnings or a decrease in goodwill in the period such determination is made. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize and measure potential liabilities based upon criteria set forth in FASB ASC Topic 740. Based upon these criteria, we estimate whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities may result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities is less than the amount ultimately assessed, a further charge to expense would result.

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, as occurred in connection with the aforementioned California tax law change during the first quarter of 2009, we will adjust our valuation allowance with a corresponding effect to the provision for income taxes in the period in which such determination is made.

Significant judgment is required in evaluating our uncertain tax positions under FASB ASC Topic 740 and determining our provision for income taxes. Although we believe our reserves under FASB ASC Topic 740 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 from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made as it was during the second quarter of 2009,

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when we recorded a non-recurring income tax charge as a result of a federal appellate court ruling in *Xilinx, Inc. v. Commissioner*. The provision for income taxes includes the effect of reserves under FASB ASC Topic 740 and any changes to the reserves that are considered appropriate, as well as the related net interest and penalties, if applicable.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We 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 condensed 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.

From time to time, we are involved in disputes, litigation, and other legal actions. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require us to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, which could result in the need to adjust our liability and record additional expenses.

Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our consolidated results of operations and financial condition, which is incorporated herein by reference.

Results of Operations

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Net revenues:								
Product	$ 634.1	$ 767.0	$ (132.9)	(17%)	$ 1,828.9	$ 2,165.1	$ (336.2)	(16%)
Percentage of net revenues	*77.0%*	*81.0%*			*77.0%*	*81.7%*		
Service	189.8	180.0	9.8	5%	545.6	483.8	61.8	13%
Percentage of net revenues	*23.0%*	*19.0%*			*23.0%*	*18.3%*		
Total net revenues	$ 823.9	$ 947.0	$ (123.1)	(13%)	$ 2,374.5	$ 2,648.9	$ (274.4)	(10%)

Our net product revenues decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily because of decreased revenue from our Infrastructure products to service provider customers whose spending patterns were affected by the weakened global economy, partially offset by increased revenues from our Infrastructure products sold to the enterprise customers and SLT products sold to service providers.

Our net service revenues increased in the three and nine months ended September 30, 2009, compared to the same

periods in 2008, primarily due to the increase in maintenance revenue from our expanded installed base of equipment under service contracts.

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Infrastructure Segment Revenues

The following table presents net Infrastructure segment revenues and net Infrastructure segment revenues as a percentage of total net revenues by product and service categories (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Net Infrastructure segment revenues:								
Infrastructure product revenue	$ 472.0	$ 610.3	$ (138.3)	(23%)	$ 1,396.2	$ 1,714.9	$ (318.7)	(19%)
Percentage of net revenues	*57.2%*	*64.4%*			*58.8%*	*64.7%*		
Infrastructure service revenue	123.2	119.0	4.2	4%	350.1	308.7	41.4	13%
Percentage of net revenues	*15.0%*	*12.6%*			*14.7%*	*11.7%*		
Total Infrastructure segment revenues	$ 595.2	$ 729.3	$ (134.1)	(18%)	$ 1,746.3	$ 2,023.6	$ (277.3)	(14%)
Percentage of net revenues	*72.2%*	*77.0%*			*73.5%*	*76.4%*		

Infrastructure Product

For the three and nine months ended September 30, 2009, the decrease in Infrastructure product revenue compared to the same periods in 2008 was primarily attributable to decreased revenue in M-, T-, and E-series product families due to our customers reduced demand due to the global economic environment, partially offset by revenue growth from our EX-series switching products and MX-series products. In the three months ended September 30, 2009, we experienced a 34% decrease in revenue from the service provider market and a 58% increase in revenue from the enterprise market compared to the same period in 2008. In the nine months ended September 30, 2009, we experienced a 28% decrease in revenue from the service provider market and a 55% increase in revenue from the enterprise market compared to the same period in 2008. Compared to the same periods in 2008, during the three and nine months ended September 30, 2009, the decrease in the service provider market was primarily due to decreased capital spending in that customer market, and the increase in the enterprise market was primarily due to the growth in our EX-series switching business and our continued focus on selling Infrastructure products into the enterprise market. Geographically, Infrastructure product revenue decreased in all regions for the three and nine months ended September 30, 2009.

We track Infrastructure chassis revenue units and ports shipped to analyze customer trends and indicate areas of potential network growth. Most of our Infrastructure product platforms are modular, with the chassis serving as the base of the platform. Each modular chassis has a certain number of slots that are available to be populated with components we refer to as modules or interfaces. The modules are the components through which the platform receives incoming packets of data from a variety of transmission media. The physical connection between a transmission medium and a module is referred to as a port. The number of ports on a module varies widely depending on the functionality and throughput offered by the module. Chassis revenue units represent the number of chassis on which revenue was recognized during the period. The following table presents Infrastructure revenue units and ports shipped:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Unit Change	% Change	2009	2008	Unit Change	% Change
Infrastructure chassis revenue units (1)	3,227	3,559	(332)	(9%)	9,253	9,951	(698)	(7%)
Infrastructure ports shipped (1)	109,749	95,839	13,910	15%	317,260	268,772	48,488	18%

(1) Excludes modular and fixed configuration EX-series Ethernet switching products and circuit-to-packet products.

Infrastructure chassis revenue units decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, due to reduced customer demand because of the weakened global economy. The port shipments increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to an increase in the MX-series products, which generally contain a higher number of ports per chassis.

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Infrastructure Service

The increase in Infrastructure service revenue for the three and nine months ended September 30, 2009, was primarily due to an increase in our installed base of equipment being serviced. In the three months ended September 30, 2009, we experienced a 38% increase in revenue from the enterprise market and revenue from the service provider market was flat, compared to the same period in 2008. In the nine months ended September 30, 2009, we experienced a 12% increase in revenue from the service provider market and a 28% increase in revenue from the enterprise market compared to the same period in 2008. Geographically, Infrastructure service revenue increased in EMEA and APAC and decreased in the Americas for the three months ended September 30, 2009, while Infrastructure service revenue increased in all regions for the nine months ended September 30, 2009. A majority of our service revenue is earned from customers that purchase our products and enter into service contracts for support.

SLT Segment Revenues

The following table presents net SLT segment revenues and net SLT segment revenues as a percentage of total net revenues by product and service categories (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Net SLT segment revenues:								
SLT product revenue	$ 162.1	$ 156.7	$ 5.4	3%	$ 432.7	$ 450.2	$ (17.5)	(4%)
Percentage of net revenues	*19.7%*	*16.6%*			*18.2%*	*17.0%*		
SLT service revenue	66.6	61.0	5.6	9%	195.5	175.1	20.4	12%
Percentage of net revenues	8.1%	*6.4%*			*8.3%*	*6.6%*		
Total SLT segment revenues	$ 228.7	$ 217.7	$ 11.0	5%	$ 628.2	$ 625.3	$ 2.9	N/M
Percentage of net revenues	*27.8%*	*23.0%*			*26.5%*	*23.6%*		

N/M Not meaningful

SLT Product

We experienced an increase in SLT product revenue primarily due to increases in revenue from our SRX services gateways partially offset by decreased revenues from our high-end and branch firewall products in the three months ended September 30, 2009, compared to the same period in 2008. In the nine months ended September 30, 2009, we experienced a decrease in SLT product revenue primarily due to a decrease in revenue from our high-end and branch firewall products partially offset by an increase in revenue from our SRX services gateways. In the three months ended September 30, 2009, we experienced a 47% increase in revenue from the service provider market and a 10% decrease in revenue from the enterprise market compared to the same period in 2008. In the nine months ended September 30, 2009, we experienced a 12% increase in revenue from the service provider market and a 9% decrease in revenue from the enterprise market compared to the same period in 2008. Geographically, SLT product revenue increased in the Americas region partially offset by decreased revenue in the EMEA and APAC regions for the three months ended September 30, 2009. For the nine months ended September 30, 2009, SLT product revenue decreased in

the EMEA and APAC regions, partially offset by an increase in revenue in the Americas region.

The following table presents SLT revenue units recognized:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Unit Change	% Change	2009	2008	Unit Change	% Change
SLT revenue units	55,319	60,587	(5,268)	(9%)	147,717	180,724	(33,007)	(18%)

SLT revenue units decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008. The percentage decrease in SLT product revenues was lower than the percentage decrease in revenue units, primarily due to the product mix that favored products with higher selling prices.

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SLT Service

The increase in SLT service revenue was primarily due to an increase in our installed base of equipment being serviced. In the three months ended September 30, 2009, we experienced a 19% increase in revenue from the service provider market and a 7% increase in revenue from the enterprise market compared to the same period in 2008. In the nine months ended September 30, 2009, we experienced a 20% increase in revenue from the service provider market and a 10% increase in revenue from the enterprise market compared to the same period in 2008. Geographically, SLT service revenue increased in all regions for the three and nine months ended September 30, 2009. A majority of our service revenue is earned from customers that purchase our products and enter into service contracts for support.

Net Revenues by Geographic Region

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Americas:								
United States	$ 380.3	$ 421.3	$ (41.0)	(10%)	$ 1,045.4	$ 1,135.3	$ (89.9)	(8%)
Other	42.5	57.2	(14.7)	(26%)	128.0	149.8	(21.8)	(15%)
Total Americas	422.8	478.5	(55.7)	(12%)	1,173.4	1,285.1	(111.7)	(9%)
Percentage of net revenues	*51.3%*	*50.5%*			*49.4%*	*48.5%*		
Europe, Middle East, and Africa	243.2	277.6	(34.4)	(12%)	698.3	803.3	(105.0)	(13%)
Percentage of net revenues	*29.5%*	*29.3%*			*29.4%*	*30.3%*		
Asia Pacific	157.9	190.9	(33.0)	(17%)	502.8	560.5	(57.7)	(10%)
Percentage of net revenues	*19.2%*	*20.2%*			*21.2%*	*21.2%*		
Total	$ 823.9	$ 947.0	$ (123.1)	(13%)	$ 2,374.5	$ 2,648.9	$ (274.4)	(10%)

Net revenues in the Americas region decreased in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to a revenue decrease in the Americas from the service provider market, partially offset by an increase in net revenues from the enterprise market in the United States. Net revenues in the Americas region as a percentage of total net revenues increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to the relative strength of sales in the Americas compared to EMEA.

Net revenues in EMEA decreased in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to reduced demand in the service provider market, partially offset by a slight increase in revenue from the enterprise market. Net revenues in EMEA increased as a percentage of total net revenues in the three months ended September 30, 2009, compared to the same period in 2008, primarily due to the relative strength of the EMEA region compared to APAC. In the nine months ended September 30, 2009, net revenues in EMEA decreased as a percentage of total net revenues, compared to the same period in 2008, primarily due to the relative weakness of the EMEA region compared to the Americas.

Net revenues in APAC decreased in absolute dollars and as a percentage of total net revenues in the three months ended September 30, 2009, compared to the same period in 2008, primarily due to reduced demand in the service provider market and the relative weakness of the APAC region compared to the Americas and EMEA. In the nine months ended September 30, 2009, net revenues in APAC decreased in absolute dollars, compared to the same period in 2008, primarily due to reduced demand in the service provider and enterprise markets. Net revenues in APAC as a

percentage of total net revenues was consistent in the nine months ended September 30, 2009, compared to the same period in 2008.

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Net Revenues by Markets and Customers

The following table presents the total net revenues by markets (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Service Provider	$ 524.0	$ 688.0	$ (164.0)	(24%)	$ 1,557.8	$ 1,933.3	$ (375.5)	(19%)
Percentage of net revenues	*63.6%*	*72.7%*			*65.6%*	*73.0%*		
Enterprise	299.9	259.0	40.9	16%	816.7	715.6	101.1	14%
Percentage of net revenues	*36.4%*	*27.3%*			*34.4%*	*27.0%*		
Total	$ 823.9	$ 947.0	$ (123.1)	(13%)	$ 2,374.5	$ 2,648.9	$ (274.4)	(10%)

We sell our high-performance network products and service offerings from both the Infrastructure and SLT segments to two primary markets service provider and enterprise. The service provider market includes wireline, wireless, and cable operators, as well as major internet content and application providers. The enterprise market represents businesses; federal, state and local governments; and research and education institutions.

Net revenues from the service provider market decreased in absolute dollars and as a percentage of total net revenues in the three and nine months ended September 30, 2009, compared to the same periods of 2008, primarily due to our customers reduced investment in new network build-outs and purchases of additional networking capacity in reaction to the weak global macroeconomic environment. The decline in the percentage of net revenues was also due to the relative strength of our revenue from the enterprise market. Net revenues from the enterprise market increased in absolute dollars and as a percentage of total net revenues in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to revenue growth from our EX-series switching products.

Verizon accounted for 10.4% and 13.3% of our net revenues for the three months ended September 30, 2009, and 2008, respectively. No single customer accounted for 10.0% or more of our net revenues for the nine months ended September 30, 2009, and 2008.

Cost of Revenues

The following table presents cost of product and service revenues and the related gross margin (GM) percentages (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Cost of revenues:								
Product	$ 206.3	$ 230.1	$ (23.8)	(10%)	$ 607.0	$ 637.0	$ (30.0)	(5%)
GM as a percentage of product revenues	*67.5%*	*70.0%*			*66.8%*	*70.6%*		
Service	80.4	77.5	2.9	4%	234.2	224.7	9.5	4%
GM as a percentage of service revenues	*57.7%*	*56.9%*			*57.1%*	*53.6%*		
Total cost of revenues	$ 286.7	$ 307.6	$ (20.9)	(7%)	$ 841.2	$ 861.7	$ (20.5)	*(2%)*

GM as a percentage of net revenues	*65.2%*	*67.5%*	*64.6%*	*67.5%*

The cost of product revenues decreased in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to lower revenue level. Product gross margin decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to product mix that favored products with lower gross margins, geographical mix, and, to a lesser extent, pricing.

As of September 30, 2009, we had 242 employees compared to 220 employees for the same period in 2008, in our manufacturing and operations organization that primarily manage relationships with our contract manufacturers, manage our supply chain, and monitor and manage product testing and quality.

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The cost of service revenues and service gross margin increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008. The increases in cost of service revenues in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, were primarily due to the higher service revenue in 2009. Service gross margins were higher in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to our continued efforts to manage costs. Service-related headcount increased by 63 employees, or 8%, to 868 employees as of September 30, 2009, compared to 805 employees in the same period of 2008. Personnel-related costs, consisting of salaries, bonus, fringe benefits expenses, and stock-based compensation expenses, represented the majority of the cost of service revenues in the three and nine months ended September 30, 2009. Total personnel-related costs as a percentage of service revenues were approximately 18% in the three and nine months ended September 30, 2009, respectively, compared to 19% and 21% in the same periods in 2008. The decrease in personnel-related costs as a percentage of service revenues is primarily due to the overall increase in service revenues in the three and nine months ended September 30, 2009. Travel-related expense decreased primarily due to our on-going efforts to control costs. These decreases were partially offset by increased spending on service-related spares in the three and nine months ended September 30, 2009, compared to the same periods in 2008. Additionally, facilities and information technology expenses related to cost of service revenues increased in connection with the growth of our service business as a portion of our overall operations.

Operating Expenses

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Research and development	$ 185.2	$ 194.0	$ (8.8)	(5%)	$ 554.5	$ 551.0	$ 3.5	1%
Sales and marketing	177.3	200.6	(23.3)	(12%)	529.2	576.9	(47.7)	(8%)
General and administrative	39.9	37.6	2.3	6%	118.3	106.9	11.4	11%
Amortization of purchased intangible assets	1.3	5.2	(3.9)	(75%)	9.2	38.3	(29.1)	(76%)
Restructuring charges	4.5		4.5	N/M	16.2		16.2	N/M
Other charges	1.0		1.0	N/M	1.0	9.0	(8.0)	(89%)
Total operating expenses	$ 409.2	$ 437.4	$ (28.2)	(6%)	$ 1,228.4	$ 1,282.1	$ (53.7)	(4%)
Operating income	$ 128.0	$ 202.0	$ (74.0)	(37%)	$ 304.8	$ 505.1	$ (200.3)	(40%)

N/M Not meaningful

The following table highlights our operating expenses as a percentage of net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Research and development	22.5%	20.5%	23.3%	20.8%

Sales and marketing	21.5%	21.2%	22.3%	21.8%
General and administrative	4.8%	4.0%	5.0%	4.0%
Amortization of purchased intangible assets	0.2%	0.5%	0.4%	1.5%
Restructuring charges	0.6%		0.7%	
Other charges	0.1%			0.3%
Total operating expenses	49.7%	46.2%	51.7%	48.4%
Operating income	15.5%	21.3%	12.8%	19.1%

Research and development (R&D) expenses decreased in the three months ended September 30, 2009, compared to the same period in 2008, primarily due to the timing of prototype expenditures and our continued efforts to control costs. R&D increased in the nine months ended September 30, 2009, compared to the same period in 2008, primarily due to additional headcount and strategic initiatives to expand our product portfolio and maintain our technological advantage over competitors. R&D expenses primarily consist of personnel-related expenses and new product development costs. Personnel related costs, consisting of salaries, bonus, fringe benefits expenses, stock-based compensation expenses, and other employee-related expenses decreased $1.0 million, or 1%, and increased $14.3 million, or 4% to $111.2 million and $344.1 million in the three and nine months ended September 30, 2009, respectively, primarily due to a 6% increase in headcount in our engineering organization, from 3,063 employees as of September 30, 2008, to 3,237 employees as of September 30, 2009, to support continued product innovation. Outside consulting and other development expense also increased in the three and nine months ended September 30, 2009, to support our product innovation initiatives. Additionally, facilities and information technology expenses

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related to research and development expenses increased in the three and nine months ended September 30, 2009, to support these engineering efforts.

Sales and marketing expenses decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to a decrease in personnel-related expenses and travel expenses. Personnel-related costs, consisting of salaries, commissions, bonus, fringe benefits, stock-based compensation expenses, and other employee-related expenses, decreased $9.0 million and $18.9 million for the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008, primarily due to a decrease in variable compensation driven by lower net revenues. In addition, headcount decreased by 2% in our worldwide sales and marketing organization from 2,139 employees as of September 30, 2008, to 2,092 employees as of September 30, 2009. Additionally, travel expense decreased $6.0 million and $16.9 million in the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008 as part of our on-going efforts to control expenses.

General and administrative expenses increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to an increase in personnel-related costs and outside professional services. Personnel-related costs, consisting of salaries, bonus, fringe benefits, stock-based compensation expenses, and other employee-related expenses increased by $1.7 million and $3.8 million in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to a 4% increase in headcount in our worldwide general and administrative functions, from 340 employees as of September 30, 2008 to 352 employees as of September 30, 2009, partially offset by a decrease in bonus expense due to lower financial performance. Outside professional service fees increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, because of increased legal fees and other outside services. Additionally, facilities and information technology related to general and administrative expenses also increased in the three and nine months ended September 30, 2009, to support our growth in headcount.

Amortization of purchased intangible assets decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, as certain purchased intangible assets became fully amortized during 2008.

We recorded $4.5 million and $16.3 million of restructuring charges in the three and nine months ended September 30, 2009, respectively, as a result of a restructuring plan to reduce our real estate portfolio and workforce in targeted areas of the Company. There were no restructuring charges in the three and nine months ended September 30, 2008. The restructuring charge in the three months ended September 30, 2009, primarily related to workforce reduction activity, while the restructuring charge in the nine months period primarily related to both facilities and workforce reduction. During the remainder of 2009, we expect to incur additional charges in connection with further restructuring activities. See Note 7 Other Financial Information in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, for further discussion of our restructuring liabilities.

We recorded $1.0 million as other charges in the three and nine months ended September 30, 2009, related to an arbitration of a legal dispute. In the three and nine months ended September 30, 2008, we recorded nil and $9.0 million, respectively, as other charges for the settlement of our derivative lawsuits.

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Interest and Other Income, Net, Loss on Minority Equity Investments, and Income Tax Provision

The following table presents net interest and other income, loss on minority equity investments, and income tax provision (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Interest and other income, net	$ 1.7	$ 9.7	$ (8.0)	(82%)	$ 6.6	$ 40.5	$(33.9)	(84%)
Percentage of net revenues	*0.2%*	*1.1%*			*0.3%*	*1.5%*		
Loss on minority equity investments				N/M	(3.3)	(1.5)	(1.8)	(120%)
Percentage of net revenues	*N/M*	*N/M*			*N/M*	*N/M*		
Income tax provision	45.9	63.2	(17.3)	(27%)	214.0	164.8	49.2	30%
Percentage of net revenues	*5.6%*	*6.7%*			*9.0%*	*6.2%*		

Net interest and other income decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to lower interest rates and an increase in interest expense from our customer financing arrangements in 2009.

In the nine months ended September 30, 2009, we recognized an impairment loss of $3.3 million on our minority equity investments. In the nine months ended September 30, 2008, we recognized an impairment loss of $1.5 million on our minority equity investments.

We recorded tax provisions of $45.9 million and $63.2 million for the three months ended September 30, 2009, and 2008, or effective tax rates of 35% and 30%, respectively. We recorded tax provisions of $214.0 million and $164.8 million for the nine months ended September 30, 2009, and 2008, or effective tax rates of 69% and 30%, respectively. The effective tax rate for the three months ended September 30, 2009, is substantially similar to the federal statutory rate of 35% and differs from the effective tax rate for the same period in 2008, primarily due to a $4.6 million income tax charge resulting from an investigation by the India tax authorities. The effective tax rate for the nine months ended September 30, 2009, differs from the federal statutory rate of 35% and the rate for the same period in 2008, primarily due to the following income tax charges: (i) the $4.6 million related to the investigation by the India tax authorities; (ii) $52.1 million resulted from a change in the our unrecognized tax benefits related to share-based compensation due to a decision reached by the U.S. Court of Appeals for the Ninth Circuit in *Xilinx Inc. v. Commissioner* in our second quarter of 2009; and (iii) $61.8 million resulted from changes in California income tax laws that were enacted during our first quarter of 2009. The effective rate impact from these charges was partially offset by the federal R&D credit and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates during the three and nine months ended September 30, 2009. The effective tax rate for the three months and nine months ended September 30, 2008, differed from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. See Note 13 Income Taxes in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, for further discussion of income taxes.

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Segment Information

For a description of the products and services for each segment, See Note 12 Segments in Notes to Condensed Consolidated Financial Statements in Item I of Part I of this Quarterly Report on Form 10-Q.

Financial information for each segment used by management to make financial decisions and allocate resources is as follows (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	$ Change	% Change	2009	2008	$ Change	% Change
Net Revenues:								
Infrastructure:								
Product	$ 472.0	$ 610.3	$ (138.3)	(23%)	$ 1,396.2	$ 1,714.9	$ (318.7)	(19%)
Service	123.2	119.0	4.2	4%	350.1	308.7	41.4	13%
Total Infrastructure revenues	595.2	729.3	(134.1)	(18%)	1,746.3	2,023.6	(277.3)	(14%)
Service Layer Technologies:								
Product	162.1	156.7	5.4	3%	432.7	450.2	(17.5)	(4%)
Service	66.6	61.0	5.6	9%	195.5	175.1	20.4	12%
Total Service Layer Technologies revenues	228.7	217.7	11.0	5%	628.2	625.3	2.9	N/M
Total net revenues	823.9	947.0	(123.1)	(13%)	2,374.5	2,648.9	(274.4)	(10%)
Operating income:								
Infrastructure	126.9	216.9	(90.0)	(41%)	358.8	603.5	(244.7)	(41%)
Service Layer Technologies	44.4	20.7	23.7	114%	79.6	39.2	40.4	103%
Total segment operating income	171.3	237.6	(66.3)	(28%)	438.4	642.7	(204.3)	(32%)
Other corporate (1)				N/M		(4.7)	4.7	(100%)
Total management operating income	171.3	237.6	(66.3)	(28%)	438.4	638.0	(199.6)	(31%)
Amortization of purchased intangible assets	(2.7)	(6.5)	3.8	(58%)	(13.4)	(42.4)	29.0	(68%)
Stock-based compensation expense	(34.3)	(28.8)	(5.5)	19%	(101.4)	(78.9)	(22.5)	29%
Stock-based payroll tax expense	(0.8)	(0.3)	(0.5)	(167%)	(1.5)	(2.6)	1.1	(42%)
Restructuring charges	(4.5)		(4.5)	N/M	(16.3)		(16.3)	N/M
Other charges	(1.0)		(1.0)	N/M	(1.0)	(9.0)	8.0	(89%)
Total operating income	128.0	202.0	(74.0)	(37%)	304.8	505.1	(200.3)	(40%)

Interest and other income, net	1.7	9.7	(8.0)	(82%)	6.6	40.5	(33.9)	(84%)
Loss on minority equity investments				N/M	(3.3)	(1.5)	(1.8)	120%
Income before income taxes	$ 129.7	$ 211.7	$ (82.0)	(39%)	$ 308.1	$ 544.1	$ (236.0)	(43%)

(1) Other corporate charges include severance and related costs associated with workforce rebalancing activities, which are not included in our business segment results.

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The following table presents financial information for each segment as a percentage of total net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Revenues:				
Infrastructure:				
Product	57.2%	64.4%	58.8%	64.7%
Service	15.0%	12.6%	14.7%	11.7%
Total Infrastructure revenues	72.2%	77.0%	73.5%	76.4%
Service Layer Technologies:				
Product	19.7%	16.6%	18.2%	17.0%
Service	8.1%	6.4%	8.3%	6.6%
Total Service Layer Technologies revenues	27.8%	23.0%	26.5%	23.6%
Total net revenues	100.0%	100.0%	100.0%	100.0%
Operating income:				
Infrastructure	15.4%	22.9%	15.1%	22.8%
Service Layer Technologies	5.4%	2.2%	3.4%	1.5%
Total segment operating income	20.8%	25.1%	18.5%	24.3%
Other corporate (1)				(0.2%)
Total management operating income	20.8%	25.1%	18.5%	24.1%
Amortization of purchased intangible assets	(0.3%)	(0.7%)	(0.6%)	(1.6%)
Stock-based compensation expense	(4.2%)	(3.0%)	(4.3%)	(3.0%)
Stock-based payroll tax expense	(0.1%)	(0.1%)	(0.1%)	(0.1%)
Restructuring charges	(0.6%)		(0.7%)	
Other charges	(0.1%)			(0.3%)
Total operating income	15.5%	21.3%	12.8%	19.1%
Interest and other income, net	0.2%	1.1%	0.3%	1.5%
Loss on minority equity investments			(0.1%)	
Income before income taxes	15.7%	22.4%	13.0%	20.6%

(1) Other corporate charges include severance and related costs associated with workforce rebalancing activities, which are not included

in our business segment results.

Infrastructure Segment

An analysis of the change in revenue for the Infrastructure segment and the change in units can be found above in the section titled Net Revenues.

Infrastructure segment operating income decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to a decrease in revenues in T-, M- and E-series product families due to reduced demand in the service provider market in reaction to the macroeconomic environment, partially offset by revenue growth from EX-series switching products as well as MX-series products. Infrastructure product gross margin in absolute dollars and as a percentage Infrastructure revenue decreased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to a change in the geographical and product lines mix and, to a lesser extent, pricing.

We continued to invest in R&D efforts to continue product innovation and expand our Infrastructure product portfolio. Our R&D expense decreased in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to our continued efforts to control costs in this challenging macroeconomic environment. R&D expense as a percentage of Infrastructure net revenues increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to lower net revenues relative to expenses. Additionally, our sales and marketing expenses decreased in absolute dollars in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to reduced discretionary spending, primarily travel, and variable compensation expense on lower Infrastructure revenues. We allocate sales and marketing, general and administrative, as well as facility and information technology expenses to the Infrastructure segment generally based upon revenue, usage, and headcount.

SLT Segment

An analysis of the change in revenue for the SLT segment and the change in units can be found above in the section titled Net Revenues.

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SLT segment operating income increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to increased revenues and cost control initiatives that resulted in lower expenses. SLT gross margin in absolute dollars and as a percentage of SLT revenue increased in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to overall service margin increase and reductions in product costs. R&D related costs decreased slightly in absolute dollars and as a percentage of SLT net revenues in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to our cost control initiatives and the growth in net revenues relative to expenses. Additionally, sales and marketing expenses also decreased in absolute dollars and as a percentage of SLT net revenues in the three and nine months ended September 30, 2009, compared to the same periods in 2008, primarily due to the growth in net revenues and reductions in discretionary spending. We allocate sales and marketing, general and administrative, as well as facility and information technology expenses to the SLT segment generally based on revenue, usage, and headcount. We have historically experienced seasonality and fluctuations in the demand for our SLT products, which may result in greater variations in our quarterly revenue.

Amortization of Purchased Intangible Assets, Stock-Based Compensation, and Related Payroll Tax Expense, Restructuring Charges, and Other Income and Expense, Net.

See Nature of Expenses and Operating Expenses for further discussion.

Key Performance Measures

In addition to the financial metrics included in the condensed consolidated financial statements, we use the following key performance measures to assess quarterly operating results:

	Three Months Ended September 30,	
	2009	**2008**
Days sales outstanding (DSO)(a)	41	35
Book-to-bill ratio(b)	>1	>1

(a) DSO is calculated at the end of the applicable quarter and is based on the ratio of ending accounts receivable, net of allowances, divided by average daily net sales for the preceding 90 days. DSO increased in the third quarter of 2009, compared to the third quarter of 2008, primarily due to timing of shipments and

cash receipts from our customers.

(b) Book-to-bill ratio represents the ratio of product orders booked divided by product revenues during the period.

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Liquidity and Capital Resources

The following sections discuss the effects of changes in our condensed consolidated balance sheets and statements of cash flows, contractual obligations, and our stock repurchase program on our liquidity and capital resources.

Overview

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

	September 30, 2009	December 31, 2008	$ Change	% Change
Working capital	$ 1,570.5	$ 1,759.6	$ (189.1)	(11%)
Cash and cash equivalents	$ 1,618.6	$ 2,019.1	$ (400.5)	(20%)
Short-term investments	449.0	172.9	276.1	160%
Long-term investments	531.5	101.4	430.1	424%
Total cash, cash equivalents and investments	$ 2,599.1	$ 2,293.4	$ 305.7	13%

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by accounts payable, income tax payable, accrued liabilities, and short-term deferred revenue. Working capital decreased by $189.1 million during the nine months ended September 30, 2009, primarily due to a net decrease in cash and cash equivalents balance due to the purchase of long-term investments and an increase in our income tax payable and short-term deferred revenue. Based upon our investment strategy, the decrease in cash and cash equivalents was primarily due to purchases of short- and long-term investments during the first nine months of 2009.

Stock Repurchase Activities

Our Board approved a stock repurchase program in March 2008 (the 2008 Stock Repurchase Program), which authorized us to purchase up to $1.0 billion of our common stock. Under this program, we repurchased approximately 2.9 million shares of our common stock at an average price of $24.67 per share for a total purchase price of $71.9 million in the three months ended September 30, 2009, and approximately 12.6 million shares of our common stock at an average price of $19.18 per share for a total purchase price of $241.1 million during the nine months ended September 30, 2009. As of September 30, 2009, we have repurchased and retired approximately 22.3 million shares of common stock under the 2008 Stock Repurchase Program and the program had remaining authorized funds of $531.0 million.

All shares of common stock purchased under the 2008 Stock Repurchase Programs have been retired. Future share repurchases under our 2008 Stock Repurchase Program will be subject to a review of the circumstances in place at the 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.

Summary of Cash Flows

In the nine months ended September 30, 2009, cash and cash equivalents decreased by $400.5 million. This decrease was the result of cash used in our investing and financing activities of $830.0 million and $107.0 million, respectively, partially offset by cash that was generated from our operating activities of $536.5 million.

Operating Activities

We generated cash from operating activities of $536.5 million in the nine months ended September 30, 2009, compared to $660.1 million in the same period of 2008. The decrease of $123.6 million in the 2009 period compared to a year ago was primarily due to the following:

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Net income of $94.1 million adjusted by non-cash charges of $259.2 million for the nine months ended September 30, 2009, as compared to net income of $379.3 million adjusted by non-cash charges of $167.7 million for the same period in 2008. These non-cash charges primarily related to depreciation and amortization expenses, stock-based compensation, and deferred income taxes.

Net changes in operating assets and liabilities of $183.2 million during the nine months ended September 30, 2009, compared to $113.1 million for the same period in 2008. The increase in net changes in operating assets and liabilities of $70.1 million was primarily due to increase in cash flows from accounts receivables, other accrued liabilities, and income taxes payable for the nine months ended September 30, 2009, compared to the same period in 2008. Cash flows from accounts receivables increased primarily due to a higher collections volume in the first nine months of 2009, compared to the same period in 2008. Cash flows from other accrued liabilities and income taxes payable decreased primarily due to the timing of payments to third-parties and payments of federal, state, and foreign income taxes.

Investing Activities

For the nine months ended September 30, 2009, net cash used by investing activities was $830.7 million compared to $191.5 million in the nine months ended September 30, 2008. The change was primarily due to an increase in purchases of available-for-sale investments based upon our investment strategy, partially offset by an increase in cash proceeds from the sales and maturities of available-for-sale investments. During the first nine months of 2009, purchases of available-for-sale investments, net of sales and maturities, was $700.2 million compared to $57.1 million for the same period in 2008.

Financing Activities

Net cash used in financing activities was $107.0 million and $406.2 million for the nine months ended September 30, 2009, and 2008, respectively. In the nine months ended September 30, 2009, we used $241.5 million to repurchase our common stock, partially offset by cash proceeds of $131.4 million from common stock issued to employees, compared to the $562.2 million used in common stock repurchases and $115.4 million from common stock issued to employees during the same period in 2008.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2009.

Contractual Obligations

Our principal commitments primarily consist of obligations outstanding under operating leases, purchase commitments, tax liabilities, and other contractual obligations.

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 condensed consolidated statements of operations. We occupy approximately 2.0 million square feet worldwide under operating leases. The majority of our office space is in North America, including our corporate headquarters in Sunnyvale, California. As of September 30, 2009, our longest lease expires in January 2017, and future minimum payments under our non-cancelable operating leases, net of committed sublease income, were $184.6 million, of which $13.6 million will be paid over the remaining three months of 2009. See *Operating Lease Extensions* in Note 15 Subsequent Events in Notes to Condensed Consolidated Financial Statements in Item I of Part I of this Form 10-Q for further discussion of amended lease obligations.

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by us place NCNR orders for components based on our build forecasts. As of September 30, 2009, there were NCNR component orders placed by the contract manufacturers with a value of $120.3 million. The contract manufacturers use the components to build products based on our forecasts and on purchase orders that we have

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received from customers. 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 materials charges for components that the contract manufacturers purchased to build products to meet our forecast or customer orders. As of September 30, 2009, we had accrued $29.9 million based on our estimate of such charges.

As of September 30, 2009, we had $173.3 million included in long-term liabilities in the condensed consolidated balance sheet for unrecognized tax positions. At this time, we are unable to make a reasonably reliable estimate of the timing of payments related to $168.7 million of such liabilities due to uncertainties in the timing of tax audit outcomes.

As of September 30, 2009, other contractual obligations consisted primarily of an indemnity-related escrow amount of $2.3 million, a five-year $36.4 million data center hosting agreement, a three-year $22.7 million software subscription, and a joint development agreement with a third-party for development of network-related technology, which requires quarterly payments of $3.5 million through January 2010. We record the payment as research and development expense in our condensed consolidated statements of operations until the technology under development has reached technological feasibility. Pursuant to the joint development agreement, in exchange for each party s respective contributions to the development effort as well as the consideration payable by us, each party will obtain a license to the technology that result from the development for use in certain of their respective product lines. As of September 30, 2009, $21.0 million remained unpaid under the data center hosting agreement with the remaining commitment expected to be paid through the end of April 2013 and $15.3 million remained unpaid under the software subscription agreement with the remaining commitment expected to be paid through the end of January 2011.

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 we may make in the future. Additionally, if we were to repurchase additional shares of our common stock under our 2008 Stock Repurchase Program, our liquidity may be impacted. As of September 30, 2009, we have over 50% of our cash and investment balances held outside of the U.S., which amount may be subject to U.S. taxes if repatriated.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term and long-term investments, together with cash generated from operations as well as cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to fund our operations, debt, and growth for at least the next 12 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 expected depending on many factors, including:

- the overall levels of sales of our products and gross profit margins;
- our business, product, capital expenditures, and research and development plans;
- repurchases of our common stock;
- incurrence and repayment of debt;
- litigation expenses, settlements, and judgments, or similar items related to resolution of tax audits;
- volume price discounts and customer rebates;

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the levels of accounts receivable that we maintain;
acquisitions of other businesses, assets, products, or technologies;
changes in our compensation policies;
capital improvements for new and existing facilities;
our competitors responses to our products;
our relationships with suppliers, partners, and customers;
possible future investments in raw material and finished goods inventories;
expenses related to future restructuring plans, if any;
tax expense associated with stock-based awards;
issuance of stock-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
the level of exercises of stock options and stock purchases under our equity incentive plans; and
general economic conditions and specific conditions in our industry and markets, including the effects of disruptions in global credit and financial markets, international conflicts, and related uncertainties.

Factors That May Affect Future Results

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

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk

We maintain an investment portfolio of various holdings, types, and maturities. The values of our investments are subject to market price volatility. In addition, as of September 30, 2009, over 50% of our cash and marketable securities are held in non-U.S. domiciled countries. Our marketable securities are generally classified as available-for-sale and, consequently, are recorded on our condensed consolidated balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss).

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 earnings of our investment portfolio. We do not currently hedge these interest rate exposures. We recognized immaterial net gains or losses during the three and nine months ended September 30, 2009, and 2008, related to the sales of our investments.

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

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are carried at fair value with changes recorded in other income (expense) 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 between one and two months.

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. Periodically, we use foreign currency forward and/or option contracts to hedge certain forecasted foreign currency transactions relating to cost of service revenue and operating expenses. 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 condensed consolidated statements of operations to which the hedged transaction relates. We record the ineffectiveness of the hedging instruments, which was immaterial during the three and nine months ended September 30, 2009, and 2008, in other income (expense) on our condensed consolidated statements of operations. The decrease in expenses including cost of service revenue, research and development, sales and marketing, and general and administrative expenses, due to foreign currency fluctuations was approximately 2% and 5% for three- and nine-month periods ended September 30, 2009, respectively.

Equity Price Risk

Our portfolio of publicly-traded equity securities is inherently exposed to equity price risk as the stock market fluctuates. We monitor our publicly-traded equity investments for impairment on a periodic basis. In the event that the carrying value of a publicly-traded equity investment exceeds its fair value, and we determine the decline in the value to be other than temporary, we reduce the carrying value to its current fair value. We do not purchase our publicly-traded equity securities with the intent to use them for trading or speculative purposes. They are classified as available-for-sale securities on our condensed consolidated balance sheets. The aggregate fair value of our marketable equity securities was $5.5 million and $4.4 million as of September 30, 2009, and December 31, 2008, respectively. A hypothetical 30% adverse change in the stock prices of our portfolio of publicly-traded equity securities would result in an immaterial loss.

In addition to publicly-traded equity securities, we have also invested in privately-held companies. These investments are carried at cost. The aggregate cost of our investments in privately-held companies was $15.2 million and $14.2 million as of September 30, 2009, and December 31, 2008, respectively.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Changes in Internal Controls

In 2007, we initiated a multi-year implementation to upgrade certain key internal systems and processes, including our company-wide human resources management system, customer relationship management (CRM) system, and our enterprise resource planning (ERP) system. This project is the result of our normal business process to evaluate and upgrade or replace our systems software and related business processes to support our evolving operational needs. There were no changes in our internal control over financial reporting that occurred during the third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information set forth under Legal Proceedings section in Note 14 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, is incorporated herein by reference.

Item 1A. ***Risk Factors***

Factors That May Affect Future Results

Investments in equity securities of publicly-traded companies involve significant risks. The market price of our stock has historically reflected a higher multiple of expected future 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, significant fluctuations in the market price of our common stock. Investors in our securities should carefully consider all of the relevant factors, including, but not limited to, the following factors, that could affect our stock price.

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Our quarterly results are inherently 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 affect the unpredictability of our quarterly results include, but are not limited to: limited visibility into customer spending plans, changes in the mix of products sold, changes in geographies in which our products are sold, changing market conditions, including current and potential customer consolidation, competition, customer concentration, long sales and implementation cycles, regional economic and political conditions, and seasonality. For example, many companies in our industry experience adverse seasonal fluctuations in customer spending patterns, particularly in the first and third quarters.

As a result, 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 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 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 have recently resulted, and may in the future result, in decreased revenues and earnings and could negatively impact our ability to forecast and manage our contract manufacturer relationships. In addition, recent turmoil in the global financial markets and associated economic weakness, or recession, particularly in the United States and Europe, as well as turmoil in the geopolitical environment in many parts of the world, may continue to put pressure on global economic conditions, which could lead to continued reduced demand for our products and/or higher costs of production. The current economic downturn 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, the recent disruption in worldwide credit markets may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. 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-term. Uncertainty about future economic conditions makes it difficult to forecast operating results and to make decisions about future investments. Future or continued economic weakness, customer financial difficulties, increases in costs of production, and reductions in spending on network maintenance, and expansion could have a material adverse effect on demand for our products and consequently on our business, financial condition, and results of operations.

A limited number of our customers comprise a significant portion of our revenues and any decrease in revenues from these customers 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 during the three months ended September 30, 2009, and 2008. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Changes in the business requirements, vendor selection, or purchasing behavior of our key customers or potential new customers could significantly decrease sales to such customers. In addition, the recent disruption in worldwide credit markets may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition, in recent years, there has been consolidation in the telecommunications industry (for example, the

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acquisitions of AT&T Inc., MCI, Inc., and BellSouth Corporation) and consolidation among the large vendors of telecommunications equipment and services (for example, the combination of Alcatel and Lucent, the joint venture of Nokia Siemens Networks B.V. (NSN), and the acquisition of Redback by Ericsson). Such consolidation may cause our customers who are involved in these transactions to suspend or indefinitely reduce their purchases of our products or have other unforeseen consequences that could harm our business, financial condition, and results of operations.

If we receive Infrastructure 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 Infrastructure 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. If orders for these 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.

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

Competition is intense in the markets that we address. The IP infrastructure market has historically been dominated by Cisco with other companies such as Alcatel-Lucent, Brocade, Ericsson, Extreme Networks, and Huawei providing products to a smaller segment of the market. In addition, 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 the SLT market, we face intense competition from a broader group of companies such as CheckPoint, Cisco, Fortinet, F5 Networks, and Riverbed. In addition, 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. In this regard, Alcatel combined with Lucent in 2006, and Ericsson acquired Redback in 2007. 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.

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

Telecommunications service provider companies and other large companies, because of their size, generally have greater purchasing power and, accordingly, have requested and received more favorable terms, which often translate into more onerous terms and conditions for their vendors. As we seek to sell more products to this class of customer, we may be required to agree to such terms and conditions, which may include terms that affect the timing of our ability to recognize revenue and have an adverse effect on our business, financial condition, and results of operations. Consolidation among such large customers can further increase their buying power and ability to require onerous terms.

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For example, many customers in this class 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, this class of 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 affect our ability to recognize the revenues from such sales, which may negatively affect our business, financial condition, and results of operations. For example, in April 2006, we announced that we would be required to defer a large amount of revenue from a customer due to the contractual obligations required by that customer.

For arrangements with multiple elements, vendor-specific objective evidence of fair value of the undelivered element is required in order to separate the components and to account for elements of the arrangement separately. Vendor-specific objective evidence of fair value is based on the price charged when the element is sold separately. However, customers may require terms and conditions that make it more difficult or impossible for us to maintain vendor-specific objective evidence of fair value for the undelivered elements to a similar group of customers, the result of which could cause us to defer the entire arrangement fees for a similar group of customers (product, maintenance, professional services, etc.) and recognize revenue only when the last element is delivered, or if the only undelivered element is maintenance revenue, we would recognize revenue ratably over the contractual maintenance period, which is generally one year, but could be substantially longer.

We expect gross margin to vary over time, and our recent level of product gross margin may not be sustainable.

Our product gross margins will vary from quarter-to-quarter, and the recent level of gross margins may not be sustainable and may be adversely affected in the future by numerous factors, including product mix shifts, increased price competition in one or more of the markets in which we compete, increases in material or labor costs, excess product component or obsolescence charges from our contract manufacturers, increased costs due to changes in component pricing or charges incurred due to component holding periods if our forecasts do not accurately anticipate product demand, warranty related issues, or our introduction of new products or entry into new markets with different pricing and cost structures.

We are a party to lawsuits, which are costly to investigate and 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. For example, we are a party to a number of patent infringement and other lawsuits. In addition, we have been served with lawsuits related to the alleged backdating of stock options and other related matters, a description of which can be found in Note 14 Commitments and Contingencies in Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, under the heading Legal Proceedings. There can be no assurance that these or any actions that have been or may be brought against us will be resolved in our favor. Regardless of whether they are resolved in our favor, these lawsuits are, and any future lawsuits to which we may become a party will likely be, expensive and time-consuming to investigate, defend, settle, and/or resolve. Such costs of investigation and 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. In addition, we are party to a lawsuit which seeks to enjoin us from granting equity awards under our 2006 Equity Incentive Plan (the 2006 Plan), as well as to invalidate all awards granted under such plan to date. The 2006 Plan is the only active plan under which we currently grant stock options, restricted stock units, and performance share awards to our employees. If this lawsuit is not resolved in our favor, we may be prevented from using the 2006 Plan to provide these equity awards to recruit new employees or to compensate existing employees, which would put us at a significant disadvantage to other companies that compete for workers in high technology industries such as ours. Accordingly, our ability to hire, retain and motivate current and prospective employees would be harmed, the result of which could negatively impact our business operations.

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Litigation or claims regarding intellectual property rights may be time-consuming, expensive and require a significant amount of resources to prosecute, defend, or make our products non-infringing.

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, or customers, alleging infringement of their proprietary rights with respect to our products. 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.

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; 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 related to certain acquisitions including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; by tax effects of stock-based compensation; by costs related to intercompany restructurings; or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the 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.

For example, in July 2009, we received a NOPA from the IRS claiming that we owe additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. As a result of the NOPA, the incremental tax liability would be approximately $807.0 million excluding interest and penalties. We strongly believe the IRS position with regard to this matter is inconsistent with applicable tax laws and existing Treasury regulations, and that our previously reported income tax provision for the year in question is appropriate. However, there can be no assurance that this matter will be resolved in our favor. Regardless of whether this matter is resolved in our favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While we believe we have provided adequately for this matter, there is still a possibility that an adverse outcome of the matter could have a material effect on our results of operations and financial condition.

Our ability to process orders and ship products in a timely manner is dependent in part on our business systems and performance of the systems and processes of third parties such as our contract manufacturers, suppliers, or other partners, as well as interfaces with 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 systems, the systems and processes of third parties, and on interfaces with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enable 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 communications with China, where a significant part of our manufacturing occurs.

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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.

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. 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. 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, if we underestimate our requirements, our contract manufacturers may have inadequate time or materials and 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 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 and the economy is likely to create greater pressures on us and our suppliers to accurately project overall component demand and to establish optimal component levels. 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, including the first quarter of 2008, 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. 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, as a result, 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 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, those 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 should fail to effectively manage our contract manufacturer relationships or if one or more of them should experience delays, disruptions, or quality control problems in our

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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. Each of these factors could adversely affect our business, financial condition, and results of operations.

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

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 our business 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 research and development and other parts of our business. Conversely, during the first nine months of 2009, in response to downward trending industry and market conditions, we restructured our business, rebalanced our workforce, and reduced our real estate portfolio, and we expect to incur additional charges in connection with further restructuring activities during the remainder of 2009. Many of our expenses, such as real estate expenses, cannot be rapidly or easily adjusted because of fluctuations in our business or numbers of employees. Moreover, rapid changes in the size of our workforce could adversely affect the ability to develop and deliver products and services as planned or impair our ability to realize our current or future business objectives.

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 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 or next-generation networks 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, may cause revenues and operating results to vary significantly and unexpectedly from quarter-to-quarter.

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 and 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 NGNs. 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 pauses 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.

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If we do not successfully anticipate market needs and develop products and product enhancements that meet those needs, or if those products 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 market needs or be able to develop new products or product enhancements to meet such needs or to meet them in a timely manner. If we fail to anticipate market requirements or to develop and introduce new products or product enhancements to meet those needs in a timely manner, 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. For example, in the first quarter of 2008, we announced new products designed to address the Ethernet switching market, a market in which we had not had a historical presence. 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. Any failure of our products to achieve market acceptance could adversely affect our business and financial results.

We rely on value-added resellers and 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 reseller and distribution partners, including our worldwide strategic partners such as Ericsson, International Business Machines (IBM), and NSN. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell competitors 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, merged with Alcatel, a competitor of ours. As a result of becoming a competitor, their resales of our products declined subsequent to the merger, and we ultimately terminated our reseller agreement. Our competitors may in some cases be effective 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 maintain and develop relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, or if these partners are not successful in their sales efforts, sales of our products may decrease, and our business, financial condition, and results of operations would suffer.

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

Further, in order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support it, and those processes and procedures may become increasingly complex and inherently difficult to manage. For example, we recently entered into an agreement to form a joint venture with NSN to develop and resell joint carrier Ethernet solutions and entered into original equipment manufacturer agreements with Dell and IBM where they will rebrand and resell our products as part of their product portfolios. These 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 processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

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We are currently implementing upgrades to key internal systems and processes, and problems with the design or implementation of these systems and processes could interfere with our business and operations.

In 2007, we initiated a project to upgrade certain key internal systems and processes, including our company-wide human resources management system, our CRM system, and 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, which may be disruptive to our underlying business. Any disruptions or delays in the design and implementation of the new systems or processes, particularly any disruptions or delays that impact our operations, could adversely affect our ability to process customer orders, ship products, provide service and support to our customers, bill and track our customers, fulfill contractual obligations, record and transfer information in a timely and accurate manner, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects, 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 subject to risks arising from our international 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 value-added resellers in countries throughout the world and depend on the operations of our contract manufacturers and suppliers that are located inside and outside of the United States. In addition, our research and development and our general and administrative operations are conducted in the United States as well as other countries.

As a result of our international operations, we are affected by economic, regulatory, social, and political conditions in foreign countries, including changes in general IT spending, the imposition of government controls, changes or limitations in trade protection laws, other regulatory requirements, which may affect our ability to import or export our products from various countries, service provider and government spending patterns affected by 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 or social unrest, difficulties in staffing and managing international operations. In particular, in some countries, we may experience reduced intellectual property protection. 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. Although we implement policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that none of our employees, contractors, and agents will take actions in violation of them. Violations of laws or key control policies by our employees, contractors, 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.

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, the 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

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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 will 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, 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.

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 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.

Our products are highly technical and if they contain undetected errors, our business could be adversely affected and we may need to defend lawsuits or 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, 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, or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers, loss of future business, 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, 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. In addition, 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.

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A breach of network security could harm public perception of our security products, which could cause us to lose revenues.

If an actual or perceived breach of network security occurs 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. This could cause us to lose current and potential end-customers or cause us to lose current and potential value-added resellers and distributors. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques.

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 will be required to 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 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.

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

The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of some technologies, especially encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. Governmental regulation of encryption 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 penalties, costs, and restrictions on export privileges.

Integration of past acquisitions and future 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. In 2005, we completed the acquisitions of five privately-held companies. 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 have acquired has been, and will continue to be, a complex, time-consuming, and expensive process. Acquisitions may also require us to issue common stock that dilutes the ownership of our current stockholders, assume liabilities, record goodwill and amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our financial condition and results of operations.

In addition, if we fail in our acquisition integration efforts with respect to our acquisitions 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.

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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. 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.

Matters related to the investigation into our historical stock option granting practices and the restatement of our financial statements have resulted in litigation and regulatory proceedings, and may result in additional litigation or other possible government actions.

Our historical stock option granting practices and the restatement of our consolidated financial statements have exposed us to risks such as litigation, regulatory proceedings, and government enforcement actions. For more information regarding our current litigation and related inquiries, please see Note 14 Commitments and Contingencies in Notes to Condensed Consolidated Financial Statements under the heading Legal Proceedings as well as the other risk factors related to litigation set forth in this section. We have provided the results of our internal review and independent investigation to the SEC and the United States Attorney s Office for the Northern District of California, and in that regard, we have responded to formal and informal requests for documents and additional information. In August 2007, we announced that we entered into a settlement agreement with the SEC in connection with our historical stock option granting practices in which we consented to a permanent injunction against any future violations of the antifraud, reporting, books-and-records and internal control provisions of the federal securities laws. This settlement concluded the SEC s formal investigation of the Company with respect to this matter. In addition, while we believe that we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we accounted for and reported, or did not report, the corresponding financial impact. We are also subject to civil litigation related to the stock option matters. No assurance can be given regarding the outcomes from litigation or other possible government actions. The resolution of these matters will be time-consuming, expensive, and may distract management from the conduct of our business. Furthermore, if we are subject to adverse findings in litigation or if we enter into any settlements related thereto, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business, financial condition, and results of operations.

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 past acquisitions and any future acquisitions, to determine if impairment has occurred. If such 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 balance sheet for the SLT operating segment, 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 the forecasted future cash flows used in the income approach. Recently, the turmoil in credit markets and the broader economy has contributed to extreme price and volume fluctuations in global stock markets that have reduced the market price of many technology

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company stocks, including ours. Future declines in our stock price, as well as any marked decline 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.

While we believe that we currently have adequate internal control over financial reporting, we are exposed to risks from legislation requiring companies to evaluate those internal controls.

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 CEO, CFO, 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 and could cause a decline in the market price of our stock.

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

The telecommunications industry is highly regulated and our business and financial condition could be adversely affected by changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate. Such regulations could address matters such as voice over the Internet or using IP, encryption technology, and access charges for service providers. In addition, regulations have been adopted with respect to environmental matters, such as the Waste Electrical and Electronic Equipment Directive and Restriction of Hazardous Substances Directive adopted by the European Union, as well as regulations prohibiting government entities from purchasing security products that do not meet specified local certification criteria. Compliance with such regulations may be costly and time-consuming for us and our suppliers and partners. The adoption and implementation of such regulations could decrease demand for our products, and at the same time could increase the cost of building and selling our products as well as impact our ability to ship products into affected areas and recognize revenue in a timely manner, which could have a material adverse effect on our business, financial condition, and results of operations.

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

At September 30, 2009, we had $1,618.6 million in cash and cash equivalents and $980.5 million in short- and long-term investments. We have invested these amounts primarily in U.S. government securities, government-sponsored enterprise obligations, foreign government debt securities, corporate notes and bonds, commercial paper, and money market funds meeting certain criteria. 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. These market risks associated with our investment portfolio may have a negative adverse effect on our liquidity, financial condition, and results of operations.

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.

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

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

(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1 July 31, 2009	1,494,823	$24.22	1,494,823	$ 566,712,014
August 1 August 31, 2009	710,184	24.88	710,184	549,043,808
September 1 September 30, 2009	710,184	25.40	710,184	531,005,188
Total	2,915,191	$24.67	2,915,191	

(1) In March 2008, the Board approved the 2008 Stock Repurchase Program, which authorized the Company to purchase up to $1.0 billion of the Company s common stock. During the three and nine months ended September 30, 2009, the Company repurchased and retired 2,915,191 and 12,569,508 shares of common stock, respectively, at an average price of $24.67 and $19.18 per share under the 2008

Stock Repurchase Program. All shares of common stock purchased under the 2008 Stock Repurchase Program have been retired. Future share repurchases under the 2008 Stock Repurchase Program will be subject to a review of the circumstances in place at the 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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Item 6. ***Exhibits***

Exhibit Number	Description of Document
3.1	Juniper Networks, Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2001)
3.2	Amended and Restated Bylaws of Juniper Networks, Inc. (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2008)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Juniper Network Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

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

Juniper Networks, Inc.

November 6, 2009

By: /s/ Robyn M. Denholm
Robyn M. Denholm
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

November 6, 2009

By: /s/ Gene Zamiska
Gene Zamiska
Vice President, Finance and Corporate Controller
(Duly Authorized Officer and Principal Accounting Officer)

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