Globalstar, Inc.
Form 10-Q
May 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-33117
GLOBALSTAR, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	41-2116508
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

300 Holiday Square Blvd.
Covington, Louisiana 70433
(Address of principal executive offices and zip code)
Registrant's Telephone Number, Including Area Code: (985) 335-1500

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

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

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

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

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

As of April 28, 2016, 910,964,078 shares of voting common stock and 134,008,656 shares of nonvoting common stock were outstanding. Unless the context otherwise requires, references to common stock in this Report mean the Registrant’s voting common stock.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GLOBALSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenue:		
Service revenues	$18,749	$17,107
Subscriber equipment sales	3,087	3,915
Total revenue	21,836	21,022
Operating expenses:		
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	7,591	7,434
Cost of subscriber equipment sales	2,178	3,131
Marketing, general and administrative	8,610	8,596
Depreciation, amortization, and accretion	19,155	19,046
Total operating expenses	37,534	38,207
Loss from operations	(15,698)	(17,185)
Other income (expense):		
Interest income and expense, net of amounts capitalized	(9,105)	(8,517)
Derivative loss	(1,344)	(107,865)
Other	(609)	4,068
Total other income (expense)	(11,058)	(112,314)
Loss before income taxes	(26,756)	(129,499)
Income tax expense	191	228
Net loss	$(26,947)	$(129,727)
Other comprehensive loss:		
Foreign currency translation adjustments	(651)	(1,290)
Total comprehensive loss	$(27,598)	$(131,017)
Net loss per common share:		
Basic	$(0.03)	$(0.13)
Diluted	(0.03)	(0.13)
Weighted-average shares outstanding:		
Basic	1,041,028	1,000,845
Diluted	1,041,028	1,000,845

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share data)
(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,859	$ 7,476
Accounts receivable, net of allowance of $4,851 and $5,270 respectively	14,445	14,536
Inventory	11,355	12,023
Prepaid expenses and other current assets	4,401	4,456
Total current assets	42,060	38,491
Property and equipment, net	1,070,439	1,077,560
Restricted cash	37,918	37,918
Prepaid second-generation ground costs	4,501	8,929
Intangible and other assets, net of accumulated amortization of $6,802 and $6,315, respectively	12,338	12,117
Total assets	$ 1,167,256	$ 1,175,015
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 32,835	$ 32,835
Accounts payable	6,135	8,118
Accrued contract termination charge	19,908	19,121
Accrued expenses	26,844	22,439
Payables to affiliates	615	616
Deferred revenue	24,596	23,902
Total current liabilities	110,933	107,031
Long-term debt, less current portion	555,015	548,286
Employee benefit obligations	4,856	4,810
Derivative liabilities	240,982	239,642
Deferred revenue	6,225	6,413
Debt restructuring fees	20,795	20,795
Other non-current liabilities	11,547	10,907
Total non-current liabilities	839,420	830,853
Commitments and contingent liabilities (Notes 7 and 8)		
Stockholders’ equity:		
Preferred Stock of $0.0001 par value; 100,000,000 shares authorized and none issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Series A Preferred Convertible Stock of $0.0001 par value; one share authorized and none issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Voting Common Stock of $0.0001 par value; 1,200,000,000 shares authorized; 912,065,931 and 904,448,226 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	91	90
Nonvoting Common Stock of $0.0001 par value; 400,000,000 shares authorized; 134,008,656 shares issued and outstanding at March 31, 2016 and December 31, 2015	13	13
Additional paid-in capital	1,598,812	1,591,443
Accumulated other comprehensive loss	(5,484)	(4,833)
Retained deficit	(1,376,529)	(1,349,582)

Total stockholders’ equity	216,903	237,131
Total liabilities and stockholders’ equity	$ 1,167,256	$ 1,175,015

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash flows provided by (used in) operating activities:		
Net loss	$(26,947)	$(129,727)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	19,155	19,046
Change in fair value of derivative assets and liabilities	1,344	107,865
Stock-based compensation expense	785	818
Amortization of deferred financing costs	2,346	2,336
Provision for bad debts	(52)	690
Noncash interest and accretion expense	2,718	2,578
Unrealized foreign currency (gain) loss	761	(4,030)
Other, net	(177)	369
Changes in operating assets and liabilities:		
Accounts receivable	(58)	(1,309)
Inventory	1,224	794
Prepaid expenses and other current assets	122	201
Other assets	39	(476)
Accounts payable and accrued expenses	1,574	3,641
Payables to affiliates	(1)	(105)
Other non-current liabilities	(655)	(163)
Deferred revenue	425	(7)
Net cash provided by operating activities	2,603	2,521
Cash flows used in investing activities:		
Second-generation network costs (including interest)	(1,598)	(4,018)
Property and equipment additions	(2,949)	(1,133)
Purchase of intangible assets	(361)	(657)
Net cash used in investing activities	(4,908)	(5,808)
Cash flows provided by financing activities:		
Proceeds from issuance of stock to Terrapin	6,500	10,000
Proceeds from issuance of common stock and exercise of options and warrants	28	61
Net cash provided by financing activities	6,528	10,061
Effect of exchange rate changes on cash	160	(240)
Net increase in cash and cash equivalents	4,383	6,534
Cash and cash equivalents, beginning of period	7,476	7,121
Cash and cash equivalents, end of period	$11,859	$13,655
Supplemental disclosure of non-cash financing and investing activities:		
Increase in non-cash capitalized accrued interest for second-generation satellites and ground costs	729	474
Capitalization of the accretion of debt discount and amortization of prepaid financing costs	1,031	761
Payments made in convertible notes and common stock	—	427
Principal amount of debt converted into common stock	—	237
Reduction of debt discount and issuance costs due to note conversions	—	84
Increase in accrued second-generation network costs	56	—

Fair value of common stock issued upon conversion of debt	—	1,086
Reduction in derivative liability due to conversion of debt	—	868

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Globalstar, Inc. (“Globalstar” or “the Company”) provides Mobile Satellite Services (“MSS”) including voice and data communications services through its global satellite network. Thermo Capital Partners LLC, through its affiliates, (collectively, “Thermo”) is the principal owner and largest stockholder of Globalstar. The Company’s Chairman and Chief Executive Officer controls Thermo. Two other members of the Company's Board of Directors are also directors, officers or minority equity owners of various Thermo entities.

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information. Certain information and footnote disclosures normally in financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"); however, management believes the disclosures made are adequate to make the information presented not misleading. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Globalstar, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016 (the "2015 Annual Report"), and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. The Company evaluates estimates on an ongoing basis. Significant estimates include the value of derivative instruments, the allowance for doubtful accounts, the net realizable value of inventory, the useful life and value of property and equipment, the value of stock-based compensation and income taxes. Certain reclassifications have been made to prior period condensed consolidated financial statements to conform to current period presentation.

These unaudited interim condensed consolidated financial statements include the accounts of Globalstar and all its subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, the information included herein includes all adjustments, consisting of normal recurring adjustments, that are necessary for a fair presentation of the Company’s condensed consolidated statements of operations, condensed consolidated balance sheets, and condensed consolidated statements of cash flows for the periods presented. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the full year or any future period.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB decided to delay the effective date of ASU No. 2014-09. With the one-year deferral, ASU No. 2014-09 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Additionally, early adoption is now permitted. However, entities reporting under U.S. GAAP are not permitted to adopt the standard earlier than the original effective date of December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which does not change the core principle of the guidance in ASU No. 2014-09 but clarifies the implementation guidance on principal versus agent considerations. The effective date and transition requirements for ASU No. 2016-08 are the same as those of ASU No. 2014-09. The Company is currently evaluating the impact that these standards will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of these standards on its ongoing reporting.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. ASU No. 2015-11 requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out (LIFO) and retail inventory method (RIM) are excluded from this new guidance. This ASU replaces the concept of market with the single measurement of net realizable value and is intended to create efficiencies for preparers and more closely aligns U.S. GAAP with IFRS. This ASU is effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Prospective application is required and early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact this standard will have on its financial statements and related disclosures, but does not expect this ASU to have a material effect on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU. No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU No. 2015-17 simplifies the presentation of deferred taxes on the balance sheet by requiring classification of all deferred tax items as noncurrent including valuation allowances by jurisdiction. The ASU is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual reporting periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company has not yet determined the effect of the standard on its ongoing reporting.

In March 2016, the FASB issued ASU No. 2016-02, Leases. The main difference between the provisions of ASU No. 2016-02 and previous U.S. GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. ASU No. 2016-02 retains a distinction between finance leases and operating leases, and the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous U.S. GAAP. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This ASU is effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company has not yet determined the effect of the standard on its ongoing reporting.

In March 2016, the FASB issued ASU No. 2016-04, Liabilities-Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU No. 2016-04 contains specific guidance for the derecognition of prepaid stored-value product liabilities within the scope of this ASU. This ASU is effective for public entities for annual periods beginning after December 15, 2017, and interim periods within those annual reporting periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company does not expect this ASU to have a material effect on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU. No. 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments. ASU No. 2016-06 clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. This ASU is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual reporting periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company has not yet determined the effect of this standard on its ongoing reporting.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual reporting periods. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company has not yet determined the effect of this standard on its ongoing reporting.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	March 31, 2016	December 31, 2015
Globalstar System:		
Space component		
First and second-generation satellites in service	$1,211,362	$1,211,768
Prepaid long-lead items	17,040	17,040
Second-generation satellite, on-ground spare	32,481	32,481
Ground component	47,374	46,870
Construction in progress:		
Space component	81	81
Ground component	186,464	177,780
Other	8,495	5,593
Total Globalstar System	1,503,297	1,491,613
Internally developed and purchased software	14,742	14,492
Equipment	11,122	10,802
Land and buildings	3,243	3,151
Leasehold improvements	1,685	1,671
Total property and equipment	1,534,089	1,521,729
Accumulated depreciation	(463,650)	(444,169)
Total property and equipment, net	$1,070,439	$1,077,560

Amounts in the above table consist primarily of costs incurred related to the construction of the Company’s second-generation constellation and ground upgrades. Amounts included in the Company’s second-generation satellite, on-ground spare balance as of March 31, 2016, consist primarily of costs related to a spare second-generation satellite that has not been placed in orbit, but is capable of being included in a future launch. As of March 31, 2016, this satellite and the prepaid long-lead items ("LLI") have not been placed into service; therefore, the Company has not started to record depreciation expense for these items.

Pursuant to the Amended and Restated Contract for the construction of Globalstar Satellites for the Second Generation Constellation between the Company and Thales Alenia Space France ("Thales"), dated and executed in June 2009 (the "2009 Contract"), the Company paid €12 million in purchase price plus an additional €3.1 million in procurement costs for the LLI to be procured by Thales on the Company's behalf. The LLI were to be used in the construction of the Phase 3 satellites for the Company. As reflected on the Company's condensed consolidated balance sheets and in the above table, the Company believes that it owns the LLI and that the title transferred upon payment. The Company has asked Thales to turn over the LLI. Despite historical statements to the contrary, Thales currently disputes the Company's ownership of the LLI and has asserted that the Company released its title to the LLI pursuant to that certain Release Agreement, dated as of June 24, 2012, which is described more fully in Note 8: Contingencies. Thales further asserts that the LLI belong to Thales and that Thales has no obligation to turn over possession of the LLI to the Company. The Company disputes Thales' assertions and is currently considering its rights and remedies to recover the LLI. At this time, the Company cannot predict the outcome related to this dispute, including, without limitation, the likelihood of any settlement or the probability of success with respect to any litigation that the Company may determine to commence with respect to the LLI.

Capitalized Interest and Depreciation Expense

The following table summarizes capitalized interest (in thousands):

	Three Months Ended March 31,	
	2016	2015
Interest cost eligible to be capitalized	$11,845	$10,116
Interest cost recorded in interest income (expense), net	(8,579)	(7,925)
Net interest capitalized	$3,266	$2,191

The following table summarizes depreciation expense (in thousands):

	Three Months Ended March 31,	
	2016	2015
Depreciation expense	$19,049	$18,903

3. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

As required by U.S. GAAP, the Company adopted the provisions of ASU No. 2015-03, Interest - Imputation of Interest - Simplifying the Presentation of Debt Issue Costs during the quarter ended March 31, 2016. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the condensed consolidated balance sheets as a reduction in the carrying amount of the related debt liability, consistent with debt discounts. The Company has applied the provisions of this ASU on a retrospective basis, and therefore, the Company has reduced long-term debt on its condensed consolidated balance sheet as of December 31, 2015 by $57.9 million of deferred financing costs previously reported as assets.

Long-term debt consists of the following (in thousands):

	March 31, 2016			December 31, 2015		
	Principal Amount	Unamortized Discount and Deferred Financing Costs	Carrying Value	Principal Amount	Unamortized Discount and Deferred Financing Costs	Carrying Value
Facility Agreement	$575,846	$ 54,765	$521,081	$575,846	$ 57,829	$518,017
Thermo Loan Agreement	85,772	31,857	53,915	83,222	32,558	50,664
8.00% Convertible Senior Notes Issued in 2013	16,747	3,893	12,854	16,747	4,307	12,440
Total Debt	678,365	90,515	587,850	675,815	94,694	581,121
Less: Current Portion	32,835	—	32,835	32,835	—	32,835
Long-Term Debt	$645,530	$ 90,515	$555,015	$642,980	$ 94,694	$548,286

The principal amounts shown above include payment of in-kind interest, as applicable. The carrying value is net of deferred financing costs and any discounts to the loan amounts at issuance, including accretion, as further described below. The current portion of long-term debt represents the scheduled principal repayments under the Facility Agreement due within one year of the balance sheet date.

Facility Agreement

On July 31, 2013, the Company entered into the Global Deed of Amendment and Restatement with Thermo, the Company's domestic subsidiaries, a syndicate of bank lenders, including BNP Paribas, Société Générale, Natixis, Credit Agricole Corporate and Investment Bank and Credit Industrial et Commercial, as arrangers, and BNP Paribas, as the security agent and COFACE Agent, providing for the amendment and restatement of its former facility agreement and certain related credit documents effective August 22, 2013 (the amended and restated facility agreement is herein referred to as the "Facility Agreement"). On August 7, 2015, the Company, Thermo, the lenders and their agent entered into a Second Global Amendment and Restatement Agreement (the "2015 GARA").

The Facility Agreement is scheduled to mature in December 2022. As of March 31, 2016, the Facility Agreement was fully drawn. Semi-annual principal repayments began in December 2014. The facility bears interest at a floating rate of LIBOR plus 2.75% through June 2017, increasing by an additional 0.5% each year thereafter to a maximum rate of LIBOR plus 5.75%. Ninety-five percent of the Company’s obligations under the Facility Agreement are guaranteed by COFACE, the French export credit agency. The Company’s obligations under the Facility Agreement are guaranteed on a senior secured basis by all of its domestic subsidiaries and are secured by a first priority lien on substantially all of the assets of the Company and its domestic subsidiaries (other than their FCC licenses), including patents and trademarks, 100% of the equity of the Company's domestic subsidiaries and 65% of the equity of certain foreign subsidiaries.

The Facility Agreement contains customary events of default and requires that the Company satisfy various financial and non-financial covenants. Pursuant to the terms of the Facility Agreement, the Company has the ability to cure noncompliance with financial covenants with Equity Cure Contributions (as described below) through a date as late as June 2019. If the Company violates any of these covenants and is unable to make a sufficient Equity Cure Contribution or obtain a waiver, it would be in default under the agreement and payment of the indebtedness could be accelerated. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-acceleration provisions. The covenants under the Facility Agreement limit the Company's ability to, among other things, incur or guarantee additional indebtedness; make certain investments, acquisitions or capital expenditures above certain agreed levels; pay dividends or repurchase or redeem capital stock or subordinated indebtedness; grant liens on its assets; incur restrictions on the ability of its subsidiaries to pay dividends or to make other payments to the Company; enter into transactions with its affiliates; merge or consolidate with other entities or transfer all or substantially all of its assets; and transfer or sell assets. As of March 31, 2016, the Company was in compliance with respect to the covenants of the Facility Agreement.

The compliance calculations of the financial covenants of the Facility Agreement permit inclusion of certain cash funds contributed to the Company from the issuance of the Company's common stock and/or subordinated indebtedness. These funds are referred to as "Equity Cure Contributions" and may be funded in order to achieve compliance with financial covenants, subject to the conditions set forth in the Facility Agreement. Each Equity Cure Contribution must be made in a minimum amount of $10 million for each measurement period or in the aggregate for all periods until the date that such funding is no longer allowed by the Facility Agreement. In August 2015 and February 2016, the Company drew $15 million and $6.5 million, respectively, under its common stock purchase agreement with Terrapin Opportunity, L.P. ("Terrapin") (the "August 2015 Terrapin Agreement"). The Company used a portion of these funds as an Equity Cure Contribution under the Facility Agreement in the calculation of compliance with financial covenants for the measurement period ended December 31, 2015.

The Facility Agreement requires the Company to maintain a total of $37.9 million in a debt service reserve account, which is pledged to secure all of the Company's obligations under the Facility Agreement. The use of these funds is restricted to making principal and interest payments under the Facility Agreement. As of March 31, 2016, the balance in the debt service reserve account, which was established with the proceeds of the loan agreement with Thermo discussed below, was $37.9 million and classified as restricted cash on the Company's condensed consolidated balance sheets.

Thermo Loan Agreement

In connection with the amendment and restatement of the Facility Agreement, the Company amended and restated its loan agreement with Thermo (as amended and restated, the “Loan Agreement”). All obligations of the Company to Thermo under the Loan Agreement are subordinated to all of the Company’s obligations under the Facility Agreement.

The Loan Agreement accrues interest at 12% per annum, which is capitalized and added to the outstanding principal in lieu of cash payments. The Company will make payments to Thermo only when permitted by the Facility Agreement. Principal and interest under the Loan Agreement become due and payable six months after the obligations under the Facility Agreement have been paid in full, or earlier if the Company has a change in control or if any acceleration of the maturity of the loans under the Facility Agreement occurs. As of March 31, 2016, $42.3 million of interest had accrued since 2009 with respect to the Loan Agreement; the Loan Agreement is included in long-term debt on the Company’s condensed consolidated balance sheets.

The Company evaluated the various embedded derivatives within the Loan Agreement (See Note 5: Fair Value Measurements for additional information about the embedded derivative in the Loan Agreement). The Company determined that the conversion option and the contingent put feature upon a fundamental change required bifurcation from the Loan Agreement. The conversion option and the contingent put feature were not deemed clearly and closely related to the Loan Agreement and were separately accounted for as a standalone derivative. The Company recorded this compound embedded derivative liability as a non-current liability on its condensed consolidated balance sheets with a corresponding debt discount, which is netted against the face value of the Loan Agreement.

The Company is accreting the debt discount associated with the compound embedded derivative liability to interest expense through the maturity of the Loan Agreement using an effective interest rate method. The fair value of the compound embedded derivative liability is marked-to-market at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determines the fair value of the compound embedded derivative using a blend of a Monte Carlo simulation model and market prices.

In connection with, and as a condition to the effectiveness of, the 2015 GARA, Thermo and certain of its affiliates executed and delivered to the agent under the Facility Agreement an undertaking (the "Second Thermo Group Undertaking Letter") in which they agreed that, during the period commencing on the effective date of the 2015 GARA and ending on the later of March 31, 2018 and, if the Company's 8% Notes Issued in 2013 shall have been redeemed in full, September 30, 2019 (the "Commitment Period"), under the circumstances described below, they will make, or cause to be made, available to the Company cash equity financing in the aggregate amount of up to $30.0 million.

Thermo and its affiliates are required to provide these funds during the Commitment Period if:

- The Company requests the funds, or
- An Event of Default occurs and is continuing under the Facility Agreement, and, at the direction of the agent under the Facility Agreement, the Company delivers a notice to Terrapin under the Purchase Agreement drawing the amount set forth in the agent's notice, and Terrapin fails to purchase shares of the Company's voting common stock to provide the Company with cash proceeds in such amount.

The balance of this commitment will be reduced by any cash equity financing received by the Company during the Commitment Period from Thermo or an external equity funding source, including Terrapin, if the Company uses the funds as an Equity Cure Contribution.

Simultaneously with the execution of the 2015 GARA and the Second Thermo Group Undertaking Letter, the Company entered into an Equity Commitment Agreement (the "Equity Agreement") and the Loan Agreement.

Pursuant to the Equity Agreement, Thermo agreed to make, or cause to be made, available to the Company up to $30.0 million in additional cash equity investments as contemplated by the 2015 GARA and the Second Thermo Group Undertaking Letter. The price per share that Thermo will pay to purchase any shares of the Company's common stock pursuant to this equity commitment will be established using the same method as used to establish the price per share under the August 2015 Terrapin Agreement. If the issuance of shares of voting common stock to Thermo pursuant to the Equity Agreement would constitute a "Change of Control," "Default" or "Event of Default" under any applicable agreement, the Company will issue instead an equal number of shares of non-voting common stock. In August 2015 and February 2016, the Company drew $15 million and $6.5 million, respectively, under the August 2015 Terrapin Agreement. Thermo's remaining cash equity commitment under the Equity Agreement is $8.5 million as of March 31, 2016.

All of the transactions between the Company and Thermo and its affiliates were reviewed and approved on the Company's behalf by a Special Committee of its independent directors, who were represented by independent counsel.

8.00% Convertible Senior Notes Issued in 2013

The 8.00% Convertible Senior Notes Issued in 2013 (the "8.00% Notes Issued in 2013") initially were convertible into shares of common stock at a conversion price of $0.80 per share of common stock, or 1,250 shares of the Company's common stock per $1,000 principal amount of the 8.00% Notes Issued in 2013, subject to adjustment. The conversion price of the 8.00% Notes Issued in 2013 is adjusted in the event of certain stock splits or extraordinary share distributions, or as a reset of the base conversion and exercise price pursuant to the terms of the Fourth Supplemental Indenture between the Company and U.S. Bank National Association, as Trustee, dated May 20, 2013 (the "Indenture"). Due to common stock issuances by the Company since May 20, 2013 at prices below the then effective conversion rate, the base conversion price (rounded to the nearest cent) has been reduced to $0.73 per share of common stock as of March 31, 2016.

The 8.00% Notes Issued in 2013 are senior unsecured debt obligations of the Company with no sinking fund. The 8.00% Notes Issued in 2013 will mature on April 1, 2028, subject to various call and put features, and bear interest at a rate of 8.00% per annum. Interest on the 8.00% Notes Issued in 2013 is payable semi-annually in arrears on April 1 and October 1 of each year. Interest is paid in cash at a rate of 5.75% per annum and in additional notes at a rate of 2.25% per annum. The Indenture for the 8.00% Notes Issued in 2013 provides for customary events of default. As of March 31, 2016, the Company was in compliance with respect to the terms of the 8.00% Notes Issued in 2013 and the Indenture.

Subject to certain conditions set forth in the Indenture, the Company may redeem the 8.00% Notes Issued in 2013, with the prior approval of the majority lenders under the Facility Agreement, in whole or in part, at any time on or after April 1, 2018, at a price equal to the principal amount of the 8.00% Notes Issued in 2013 to be redeemed plus all accrued and unpaid interest thereon.

A holder of 8.00% Notes Issued in 2013 has the right, at the holder's option, to require the Company to purchase some or all of the 8.00% Notes Issued in 2013 held by it on each of April 1, 2018 and April 1, 2023 at a price equal to the principal amount of the 8.00% Notes Issued in 2013 to be purchased plus accrued and unpaid interest.

Subject to the procedures for conversion and other terms and conditions of the Indenture, a holder may convert its 8.00% Notes Issued in 2013 at its option at any time prior to the close of business on the business day immediately preceding April 1, 2028, into shares of common stock (or, at the option of the Company, cash in lieu of all or a portion thereof, provided that, under the Facility Agreement, the Company may pay cash only with the consent of the Majority Lenders).

As of March 31, 2016, holders had converted a total of $39.4 million principal amount of 8.00% Notes Issued in 2013, resulting in the issuance of approximately 72.1 million shares of voting common stock. There were no conversions during the three month period ended March 31, 2016. During the three month period ended March 31, 2015, holders converted a total of $0.2 million principal amount of 8.00% Notes Issued in 2013, resulting in the issuance of approximately 0.5 million shares of voting common stock and recognition of a loss on extinguishment of debt of $0.1 million.

Holders who convert 8.00% Notes Issued in 2013 receive conversion shares over a 40-consecutive trading day settlement period. Accordingly, the portion of converted debt is extinguished on an incremental basis over the 40-day settlement period, reducing the Company's outstanding debt balance. As of March 31, 2016, no conversions had been initiated but not yet fully settled.

The Company evaluated the various embedded derivatives within the Indenture for the 8.00% Notes Issued in 2013. The Company determined that the conversion option and the contingent put feature within the Indenture required bifurcation from the 8.00% Notes Issued in 2013. The Company did not deem the conversion option and the contingent put feature to be clearly and closely related to the 8.00% Notes Issued in 2013 and separately accounted for them as a standalone derivative. The Company recorded this compound embedded derivative liability as a non-current liability on its condensed consolidated balance sheets with a corresponding debt discount which is netted against the face value of the 8.00% Notes Issued in 2013.

The Company is accreting the debt discount associated with the compound embedded derivative liability to interest expense through the first put date of the 8.00% Notes Issued in 2013 (April 1, 2018) using an effective interest rate method. The Company is marking to market the fair value of the compound embedded derivative liability at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determines the fair value of the compound embedded derivative using a blend of a Monte Carlo simulation model and market prices.

Warrants Outstanding

Warrants are outstanding to purchase shares of common stock as shown in the table below:

	Outstanding Warrants		Strike Price	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Contingent Equity Agreement (1)	30,191,866	30,191,866	$0.01	$ 0.01
5.0% Warrants (2)	8,000,000	8,000,000	0.32	0.32
	38,191,866	38,191,866		

(1) Pursuant to the terms of the Contingent Equity Agreement with Thermo (See Note 9: Related Party Transactions in the Consolidated Financial Statements in the 2015 Annual Report for a description of the Contingent Equity Agreement), the Company issued to Thermo warrants to purchase shares of common stock pursuant to the annual availability fee and subsequent reset provisions in the Contingent Equity Agreement. These warrants have a five-year exercise period from issuance. These warrants were issued between June 2009 and June 2012, and the exercise periods expire through June 2017. As of March 31, 2016, Thermo had exercised warrants to purchase approximately 11.3 million of these shares prior to the expiration of the associated warrants.

(2) In June 2011, the Company issued warrants (the “5.0% Warrants”) to purchase 15.2 million shares of its voting common stock in connection with the issuance of its 5.0% Convertible Senior Unsecured Notes. During 2013, a portion of the 5.0% Warrants was exercised to purchase 7.2 million shares of common stock. The remaining 5.0%

Warrants are exercisable until June 2016, which is five years after their issuance. See Note 3: Long-Term Debt and Other Financing Arrangements in the Consolidated Financial Statements in the 2015 Annual Report for a complete description of the 5.0% Warrants.

Terrapin Opportunity, L.P. Common Stock Purchase Agreement

On December 28, 2012 the Company entered into a common stock purchase agreement with Terrapin pursuant to which the Company, subject to certain conditions, could require Terrapin to purchase up to $30.0 million of shares of voting common stock over the 24-month term following the effectiveness of a resale registration statement, which became effective on August 2, 2013. When the Company made a draw under this Terrapin common stock purchase agreement, it issued Terrapin shares of common stock at a price per share calculated as specified in the agreement. During the three months ended March 31, 2015, the Company drew $10.0 million under the agreement and issued 4.5 million shares of voting common stock to Terrapin at an average price of $2.22 per share. Through the term of this agreement, Terrapin purchased a total of 17.2 million shares of voting common stock at a total purchase price of $30.0 million. No funds remain available under this agreement.

In conjunction with the amendment of the Facility Agreement in August 2015 (as discussed above), the Company entered into a new common stock purchase agreement with Terrapin pursuant to which the Company may require Terrapin to purchase up to $75.0 million of shares of the Company’s voting common stock over the 24-month term following the date of the agreement. From time to time over the 24-month term, in the Company’s discretion, the Company may present Terrapin with up to 24 draw notices requiring Terrapin to purchase a specified dollar amount of shares of voting common stock, based on the price per share per day over ten consecutive trading days (a "Draw Down Period"). The per share purchase price for these shares of voting common stock will equal the daily volume weighted average price of the common stock on each date during the Draw Down Period on which shares are purchased by Terrapin, but not less than a minimum price specified by the Company (a “Threshold Price”), less a discount ranging from 2.75% to 4.00% based on the Threshold Price. In addition, in the Company’s discretion, but subject to certain limitations, the Company may grant to Terrapin the option to purchase additional shares during the Draw Down Period. The Company has agreed not to sell to Terrapin a number of shares of voting common stock that, when aggregated with all other shares of voting common stock then beneficially owned by Terrapin and its affiliates, would result in their beneficial ownership of more than 9.9% of the then issued and outstanding shares of voting common stock. As discussed above in this Note 3: Long-Term Debt and Other Financing Arrangements and in Note 9: Related Party Transactions, Thermo committed, under certain conditions, to purchase equity securities of the Company on the same pricing terms as the August 2015 Terrapin Agreement.

In August 2015, the Company drew $15.0 million under the August 2015 Terrapin Agreement and issued 9.3 million shares of voting common stock to Terrapin at an average price of $1.61 per share. In February 2016, the Company drew $6.5 million under the August 2015 Terrapin Agreement and issued 6.4 million shares of voting common stock to Terrapin at an average price of $1.02 per share. As of March 31, 2016, $53.5 million remained available under the August 2015 Terrapin Agreement. The Company will make additional draws from time to time under the August 2015 Terrapin Agreement to be used as Equity Cure Contributions under the Facility Agreement or for general corporate purposes.

4. DERIVATIVES

In connection with certain existing and past borrowing arrangements, the Company was required to record derivative instruments on its condensed consolidated balance sheets. None of these derivative instruments are designated as hedges. The following tables disclose the fair values of the derivative instruments on the Company’s condensed consolidated balance sheets (in thousands):

	March 31, 2016	December 31, 2015
Derivative assets:		
Interest rate cap	$2	$6

Total derivative assets	$2	$6
Derivative liabilities:		
Compound embedded derivative with 8.00% Notes Issued in 2013	$(25,754)	$(26,203)
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	(215,228)	(213,439)
Total derivative liabilities	$(240,982)	$(239,642)

The following table discloses the changes in value recorded as derivative loss in the Company's condensed consolidated statement of operations (in thousands):

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	Three Months Ended	
	March 31, 2016	March 31, 2015
Interest rate cap	$(4)	$(22)
Compound embedded derivative with 8.00% Notes Issued in 2013	449	(19,035)
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	(1,789)	(88,808)
Total derivative loss	$(1,344)	$(107,865)

Intangible and Other Assets

Interest Rate Cap

In June 2009, in connection with entering into the Facility Agreement, under which interest accrues at a variable rate, the Company entered into five ten-year interest rate cap agreements. The interest rate cap agreements reflect a variable notional amount at interest rates that provide coverage to the Company for exposure resulting from escalating interest rates over the term of the Facility Agreement. The interest rate cap provides limits on the six-month Libor rate ("Base Rate") used to calculate the coupon interest on outstanding amounts on the Facility Agreement and is capped at 5.50% should the Base Rate not exceed 6.5%. Should the Base Rate exceed 6.5%, the Company's Base Rate will be 1% less than the then six-month Libor rate. The Company paid an approximately $12.4 million upfront fee for the interest rate cap agreements. The interest rate cap did not qualify for hedge accounting treatment, and changes in the fair value of the agreements are included in the condensed consolidated statements of operations.

Derivative Liabilities

The Company has identified various embedded derivatives resulting from certain features in the Company's debt instruments. These embedded derivatives required bifurcation from the debt host agreement. All embedded derivatives that required bifurcation are recorded as a derivative liability on the Company's condensed consolidated balance sheets with a corresponding debt discount netted against the principal amount of the related debt instrument. The Company accretes the debt discount associated with each derivative liability to interest expense over the term of the related debt instrument using an effective interest rate method. The fair value of each embedded derivative liability is marked-to-market at the end of each reporting period with any changes in value reported in its condensed consolidated statements of operations. Each liability and the features embedded in the debt instrument, which required the Company to account for the instrument as a derivative, are described below.

Compound Embedded Derivative with 8.00% Notes Issued in 2013

As a result of the conversion option and the contingent put feature within the 8.00% Notes Issued in 2013, the Company recorded a compound embedded derivative liability on its condensed consolidated balance sheets with a corresponding debt discount that is netted against the face value of the 8.00% Notes Issued in 2013. The Company determined the fair value of the compound embedded derivative liability using a blend of a Monte Carlo simulation model and market prices.

Compound Embedded Derivative with the Amended and Restated Thermo Loan Agreement

As a result of the conversion option and the contingent put feature within the Thermo Loan Agreement, the Company recorded a compound embedded derivative liability on its condensed consolidated balance sheets with a corresponding debt discount that is netted against the face value of the Amended and Restated Loan Agreement. The Company determined the fair value of the compound embedded derivative liability using a blend of a Monte Carlo simulation model and market prices.

5. FAIR VALUE MEASUREMENTS

The Company follows the authoritative guidance for fair value measurements relating to financial and non-financial assets and liabilities, including presentation of required disclosures herein. This guidance establishes a fair value framework requiring the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets and liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Recurring Fair Value Measurements

The following table provides a summary of the financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	March 31, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Assets:				
Interest rate cap	$—	$2	$—	$2
Total assets measured at fair value	$—	$2	$—	$2
Liabilities:				
Liability for potential stock issuance to Hughes	$—	$(5,343)	$—	$(5,343)
Compound embedded derivative with 8.00% Notes Issued in 2013	—	—	(25,754)	(25,754)
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	—	—	(215,228)	(215,228)
Total liabilities measured at fair value	$—	$(5,343)	$(240,982)	$(246,325)

	December 31, 2015			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Assets:				
Interest rate cap	$—	$6	$—	$6
Total assets measured at fair value	$—	$6	$—	$6
Liabilities:				
Liability for potential stock issuance to Hughes	$—	$(5,495)	$—	$(5,495)
Compound embedded derivative with 8.00% Notes Issued in 2013	—	—	(26,203)	(26,203)
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	—	—	(213,439)	(213,439)
Total liabilities measured at fair value	$—	$(5,495)	$(239,642)	$(245,137)

Assets

Interest Rate Cap

The fair value of the interest rate cap is determined using observable pricing inputs including benchmark yields, reported trades, and broker/dealer quotes at the reporting date. See Note 4: Derivatives for further discussion.

Liabilities

Liability for potential stock issuance to Hughes

The Company has one liability classified as Level 2. As described in Note 7: Commitments, the Company agreed to provide downside protection after the issuance of shares of common stock to Hughes in lieu of cash for contract payments in June 2015. This feature requires the Company to issue to Hughes additional shares of common stock equal to the difference, if any, between $15.5 million and the total amount of gross proceeds Hughes receives from the sale of any shares plus the market value of any shares still held by Hughes as of the close of trading on June 30, 2016. The value of this option is calculated using a Black-Scholes pricing model. This liability is marked to market at each balance sheet date and through the settlement date.

Derivative Liabilities

The Company has two derivative liabilities classified as Level 3. The Company marks-to-market these liabilities at each reporting date with the changes in fair value recognized in the Company's condensed consolidated statements of operations. See Note 4: Derivatives for further discussion.

The significant quantitative Level 3 inputs utilized in the valuation models are shown in the tables below:

	March 31, 2016			
	Stock Price Volatility	Risk-Free Interest Rate	Note Conversion Price	Market Price of Common Stock
Compound embedded derivative with 8.00% Notes Issued in 2013	80% - 90%	0.7 %	$ 0.73	$ 1.47
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	50% - 90%	1.6 %	$ 0.73	$ 1.47

	December 31, 2015			
	Stock Price Volatility	Risk-Free Interest Rate	Note Conversion Price	Market Price of Common Stock
Compound embedded derivative with 8.00% Notes Issued in 2013	75% - 90%	1.1 %	$ 0.73	$ 1.44
Compound embedded derivative with the Amended and Restated Thermo Loan Agreement	50% - 90%	2.1 %	$ 0.73	$ 1.44

Fluctuation in the Company's stock price is the primary driver for the changes in the derivative valuations during each reporting period. As the stock price decreases towards the current conversion price for each of the related derivative instruments, the value to the holder of the instrument generally decreases, thereby decreasing the liability on the Company's condensed consolidated balance sheets. These valuations are sensitive to the weighting applied to each of the simulated values. Additionally, stock price volatility is one of the significant unobservable inputs used in the fair value measurement of each of the Company's derivative instruments. The simulated fair value of these liabilities is sensitive to changes in the expected volatility of the Company's stock price. Decreases in expected volatility would generally result in a lower fair value measurement.

Probability of a change of control is another significant unobservable input used in the fair value measurement of the Company's derivative instruments. Subject to certain restrictions in each indenture, the Company's debt instruments contain certain provisions whereby holders may require the Company to purchase all or any portion of the convertible debt instrument upon a change of control. A change of control will occur upon certain changes in the ownership of the Company or certain events relating to the trading of the Company's common stock. The simulated fair value of the derivative liabilities above is sensitive to changes in the assumed probabilities of a change of control. Decreases in the assumed probability of a change of control would generally result in a lower fair value measurement.

In addition to the inputs described above, the valuation model used to calculate the fair value measurement of the compound embedded derivatives within the Company's 8.00% Notes Issued in 2013 and Thermo Loan Agreement included the following inputs and features: payment in kind interest payments, make whole premiums, a 40-day stock issuance settlement period upon conversion, automatic conversions, and the principal balance of each loan at the balance sheet date. There are also certain put and call features within the 8.00% Notes Issued in 2013 that impact the valuation model. The trading activity in the market provides the Company with additional valuation support. The Company uses a weight factor to calculate the fair value of the embedded derivatives to align the fair value produced from the Monte Carlo simulation model with the market value of the 8.00% Notes Issued in 2013. Due to the similarities of the debt instruments, the Company applies a similar weight to the embedded derivative in the Thermo Loan Agreement. These valuations are sensitive to the weighting applied to each of the simulated values.

The following table presents a rollforward for all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Three months ended March 31,	
	2016	2015
Balance at beginning of period	$(239,642)	$(441,550)
Derivative adjustment related to conversions and exercises	—	867
Unrealized loss, included in derivative loss	(1,344)	(107,843)
Balance at end of period	$(240,986)	$(548,526)

Fair Value of Debt Instruments

The Company believes it is not practicable to determine the fair value of the Facility Agreement. Unlike typical long-term debt, interest rates and other terms for the Facility Agreement are not readily available and generally involve a variety of factors, including due diligence by the debt holders. As such, it is not practicable to determine the fair value of the Facility Agreement without incurring significant additional costs. The following table sets forth the carrying values and estimated fair values of the Company's other debt instruments, which are classified as Level 3 financial instruments (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Thermo Loan Agreement	$53,915	$ 20,800	$50,664	$ 17,244
8.00% Convertible Senior Notes Issued in 2013	12,854	10,665	12,440	9,831

6. ACCRUED EXPENSES AND OTHER NON-CURRENT LIABILITIES

Accrued expenses consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Accrued interest	$ 5,778	$ 317
Accrued compensation and benefits	2,854	2,098
Accrued property and other taxes	4,058	4,125
Accrued customer liabilities and deposits	3,259	3,216
Accrued professional and other service provider fees	1,705	1,601
Accrued commissions	935	1,216
Accrued telecommunications expenses	682	1,487
Accrued inventory	44	502
Accrued liability for potential stock issuance to Hughes	5,343	5,495
Other accrued expenses	2,186	2,382
Total accrued expenses	$ 26,844	$ 22,439

Accrued liability for potential stock issuance to Hughes includes the estimated value at March 31, 2016 of the downside protection that the Company provided to Hughes in connection with its April 2015 agreement (as amended). See Note 5: Fair Value Measurements and Note 7: Commitments for further discussion.

Other accrued expenses primarily include advertising, vendor services, storage, warranty reserve, maintenance, rent, payments to independent gateway operators and estimated payroll shortfall under the Cooperative Endeavor Agreement with the Louisiana Department of Economic Development.

Other non-current liabilities consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Long-term accrued interest	$ 192	$ 96
Asset retirement obligation	1,336	1,302
Deferred rent and other deferred expense	549	593
Liability related to the Cooperative Endeavor Agreement with the State of Louisiana	632	716
Uncertain income tax positions	6,272	5,795
Foreign tax contingencies	2,485	2,311
Capital lease obligations	81	94
Total other non-current liabilities	$ 11,547	$ 10,907

7. COMMITMENTS

Contractual Obligations - Second-Generation Satellites, Next-Generation Gateways and Other Ground Facilities

As of March 31, 2016, the Company had purchase commitments with Thales, Hughes Network Systems, LLC ("Hughes") and Ericsson Inc. ("Ericsson") related to the procurement, deployment and maintenance of the second-generation network.

Second-Generation Satellites

As of March 31, 2016, the Company had a contract with Thales for the construction of the Company's second-generation low-earth orbit satellites and related services. The Company has successfully launched all of these second-generation satellites, excluding one on-ground spare. The Company and Thales have discussed the ownership of certain deliverables under this contract but have been unable to reach an agreement.

Effective October 24, 2014, the Company entered into a contract with Thales for in-orbit support services for the second-generation satellites delivered under the 2009 contract described in Note 2: Property and Equipment. These services will be performed over a three-year period for a total cost of approximately €1.9 million. A credit of €0.6 million will be applied to the total cost, reducing the first annual payment to €0. This credit results from a settlement of amounts previously paid in conjunction with the 2009 contract.

Next-Generation Gateways and Other Ground Facilities

Hughes Network Systems

In May 2008, the Company entered into a contract with Hughes under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of the Company's satellite gateway ground stations and satellite interface chips to be used in various second-generation Globalstar devices.

In March 2015, the Company entered into an agreement with Hughes for the design, development, build, testing and delivery of four custom test equipment units for a total of $1.9 million. This test equipment was delivered during the fourth quarter of 2015. In April 2015, the Company extended the scope of work for delivery of two additional RANs for a total of $4.0 million. These RANS were delivered in February 2016. In July 2015, the Company and Hughes formally amended the contract to include the revised scope of work set forth in the March 2015 and April 2015 letter agreements.

In April 2015, Hughes exercised an option to be paid in shares of the Company's common stock (at a price 7% below market) in lieu of cash for certain of its remaining contract payments, including those related to the 2015 work mentioned above, totaling approximately $15.5 million. In June 2015, the Company issued 7.4 million shares of freely tradable common stock at the 7% discount pursuant to this option. The portion of these contract payments related to future milestone work is included in Prepaid second-generation ground costs on the condensed consolidated balance sheets as of March 31, 2016. As the contract milestones are achieved, the Company will reclassify the related costs from Prepaid second-generation ground costs to construction in progress within Property and equipment. In the April 2015 agreement (as amended), the Company agreed to provide downside protection through June 30, 2016. This feature requires that the Company issue additional shares of common stock equal to the difference, if any, between $15.5 million and the total amount of gross proceeds Hughes receives from the sale of any shares plus the market value of any shares still held by Hughes as of the close of trading on June 30, 2016. Pursuant to this agreement, the Company recorded a liability of $5.3 million as of March 31, 2016 and $5.5 million as of December 31, 2015, respectively. The Company calculated these estimates of the value of this option using a Black-Scholes pricing model. This liability is marked to market at each balance sheet date and through the settlement date. The Company records gains and losses resulting from changes in the value of this liability in its condensed consolidated statement of operations.

Ericsson

In October 2008, the Company entered into a contract with Ericsson to develop, implement and maintain a ground interface, or core network system, which will be installed at a number of the Company's satellite gateway ground stations. In July 2014, the parties signed an amended and restated contract to specify the remaining contract value and a new milestone schedule to reflect a revised program time line. Prior to the amended and restated contract being finalized, Ericsson and the Company agreed to defer certain milestone payments previously due under the 2008 contract to 2014 and beyond. The deferred payments were incurring interest at a rate of 6.5% per annum. In April 2015, the Company signed an amendment to the 2014 contract to incorporate certain changes in scope and timing identified as necessary by the parties. In conjunction with signing this amendment, the parties executed a new letter agreement under which Ericsson waived the remaining $1.0 million in deferred milestone payments and $0.4 million in interest accrued on the milestone payments under the 2008 contract. In the first quarter of 2015, the Company reversed these amounts from accounts payable, accrued expenses and construction in progress on the Company's condensed consolidated balance sheet. In August 2015, the Company and Ericsson executed a second amendment to the 2014 contract which incorporated revised payment and pricing schedules. This amendment also reflected an accelerated timeline for the project providing that the work is estimated to be completed in the second quarter, instead of the third quarter, of 2016. As of March 31, 2016, the remaining amount due under the contract is $6.1 million.

Other Second-Generation Commitments

The Company has signed various licensing and royalty agreements necessary for the manufacture and distribution of its second-generation products, which are expected to be introduced in the coming months. The Company will pay or has paid license fees for new product technology with royalty fees payable on a per unit basis as these units are manufactured, sold, or activated.

8. CONTINGENCIES

Arbitration

On June 3, 2011, Globalstar filed a demand for arbitration against Thales before the American Arbitration Association to enforce certain rights to order additional satellites under the 2009 Contract. The Company did not include within its demand any claims that it had against Thales for work previously performed under the contract to design, manufacture and timely deliver the first 25 second-generation satellites. On May 10, 2012, the arbitration tribunal issued its award in which it determined that the Company had terminated the 2009 Contract "for convenience" and had materially breached the contract by failing to pay to Thales the €51.3 million in termination charges required under the contract. The tribunal additionally determined that absent further agreement between the parties, Thales had no further obligation to manufacture or deliver satellites under Phase 3 of the 2009 Contract. Based on these determinations, the tribunal directed the Company to pay Thales approximately €53 million in termination charges, plus interest by June 9, 2012. On May 23, 2012, Thales commenced an action in the United States District Court for the Southern District of New York by filing a petition to confirm the arbitration award (the "New York Proceeding"). Thales and the Company entered into a tolling agreement as of June 13, 2013, under which Thales dismissed the New York Proceeding without prejudice. The tolling agreement has expired. Thales may refile the petition at a later date and pursue the confirmation of the arbitration award, which the Company would oppose. Should Thales be successful in confirming the arbitration award, this would have a material adverse effect on the Company's financial condition, results of operations and liquidity.

On June 24, 2012, the Company and Thales agreed to settle their prior commercial disputes, including those disputes that were the subject of the arbitration award. In order to effectuate this settlement, the Company and Thales entered into a Release Agreement, a Settlement Agreement and a Submission Agreement. Under the terms of the Release Agreement, Thales agreed unconditionally and irrevocably to release and forever discharge the Company from any and all claims and obligations (with the exception of those items payable under the Settlement Agreement or in connection with a new contract for the purchase of any additional second-generation satellites), including, without limitation, a full release from paying €35.6 million of the termination charges awarded in the arbitration together with all interest on the award amount effective upon the earlier of December 31, 2012, and the effective date of the financing for the purchase of any additional second-generation satellites. Under the terms of the Release Agreement, the Company agreed unconditionally and irrevocably to release and forever discharge Thales from any and all claims (with limited exceptions), including, without limitation, claims related to Thales' work under the 2009 satellite construction contract, including any obligation to pay liquidated damages, effective upon the earlier of December 31, 2012, and the effective date of the financing for the purchase of any additional second-generation satellites. In connection with the Release Agreement and the Settlement Agreement, the Company recorded a contract termination charge of approximately €17.5 million which is recorded in the Company's condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015. The releases became effective on December 31, 2012.

Under the terms of the Settlement Agreement, the Company agreed to pay €17.5 million to Thales, representing one-third of the termination charges awarded to Thales in the arbitration, subject to certain conditions, on the later of the effective date of the new contract for the purchase of any additional second-generation satellites and the effective date of the financing for the purchase of these satellites. As of March 31, 2016, this condition had not been satisfied. Because the effective date of the new contract for the purchase of additional second-generation satellites did not occur on or prior to February 28, 2013, any party may terminate the Settlement Agreement. If any party terminates the Settlement Agreement, all parties' rights and obligations under the Settlement Agreement shall terminate. The Release Agreement is a separate and independent agreement from the Settlement Agreement, and therefore it would survive any termination of the Settlement Agreement. As of March 31, 2016, no party had terminated the Settlement Agreement, and the Release Agreement provides that it supersedes all prior understandings, commitments and representations between the parties with respect to the subject matter thereof.

Litigation

Due to the nature of the Company's business, the Company is involved, from time to time, in various litigation matters or subject to disputes or routine claims regarding its business activities. Legal costs related to these matters are expensed as incurred. In management's opinion, there is no pending litigation, dispute or claim, other than those described in this report, which may have a material adverse effect on the Company's financial condition, results of operations or liquidity.

9. RELATED PARTY TRANSACTIONS

Payables to Thermo and other affiliates related to normal purchase transactions were $0.6 million at each of March 31, 2016 and December 31, 2015.

Transactions with Thermo

Expenses incurred by Thermo on behalf of the Company, including non-cash expenses and those expenses charged to the Company, were $0.1 million and $0.3 million during the three months ended March 31, 2016 and 2015, respectively. Non-cash expenses, which the Company accounts for as a contribution to capital, relate to services provided by two executive officers of Thermo (who are also directors of the Company and receive no cash compensation from the Company). The Thermo expense charges are based on actual amounts (with no mark-up) incurred or upon allocated employee time.

As of March 31, 2016, the principal amount outstanding under the Loan Agreement with Thermo was $85.8 million, and the fair value of the compound embedded derivative liability associated with the Loan Agreement was $215 million. For the three months ended March 31, 2016 and 2015, interest on the Loan Agreement was approximately $2.5 million and $2.1 million, respectively. In addition, as of March 31, 2016, warrants to purchase approximately 30.2 million shares issued under the Contingent Equity Agreement and 8.0 million 5.0% Warrants remain outstanding, all of which are held by Thermo and are scheduled to expire between June 2016 and June 2017.

In August 2015, the Company entered into an Equity Agreement with Thermo. Thermo agreed to purchase up to $30.0 million in equity securities of the Company if the Company so requests or if an event of default is continuing under the Facility Agreement and funds are not available under the August 2015 Terrapin Agreement. If the Company requires Thermo to purchase equity securities under this commitment, the price per share of common stock will be calculated in the same manner as in the August 2015 Terrapin Agreement. In August 2015, the Company drew $15.0 million under the August 2015 Terrapin Agreement and issued 9.3 million shares of voting common stock to Terrapin at an average price of $1.61 per share. In February 2016, the Company drew $6.5 million under the August 2015 Terrapin Agreement and issued 6.4 million shares of voting common stock to Terrapin at an average price of $1.02 per share. Thermo's remaining cash equity commitment under the Equity Agreement is $8.5 million as of March 31, 2016.

The Facility Agreement requires Thermo to maintain minimum and maximum ownership levels in the Company's common stock. Thermo may convert shares of nonvoting common stock into shares of voting common stock as needed to comply with these ownership limitations.

See Note 3: Long-Term Debt and Other Financing Arrangements and Note 4: Derivatives for further discussion of the Company's debt and financing transactions with Thermo.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes all changes in equity during a period from non-owner sources.

The components of accumulated other comprehensive income (loss) were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Accumulated other comprehensive loss, beginning of period	$(4,833)	$(2,898)
Other comprehensive loss:		
Foreign currency translation adjustments	(651)	(1,290)
Accumulated other comprehensive loss, end of period	$(5,484)	$(4,188)

No amounts were reclassified out of accumulated other comprehensive loss for the periods shown above.

11. GEOGRAPHIC INFORMATION

The Company attributes equipment revenue to various countries based on the location where equipment is sold. Service revenue is generally attributed to the various countries based on the Globalstar entity that holds the customer contract. Long-lived assets consist primarily of property and equipment and are attributed to various countries based on the physical location of the asset at the end of a given period, except for the Company's satellites that are included in the long-lived assets of the United States. The Company’s information by geographic area is as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Service:		
United States	$13,269	$11,715
Canada	3,244	3,433
Europe	1,458	1,202
Central and South America	618	614
Others	160	143
Total service revenue	$18,749	$17,107
Subscriber equipment:		
United States	1,304	1,588
Canada	760	1,161
Europe	430	533
Central and South America	388	633
Others	205	—
Total subscriber equipment sales	$3,087	$3,915
Total revenue	$21,836	$21,022

	March 31, 2016	December 31, 2015
Property and equipment, net:		
United States	$1,066,087	$ 1,073,327
Canada	588	510
Europe	476	484
Central and South America	2,889	2,782
Others	399	457
Total property and equipment, net	$1,070,439	$ 1,077,560

12. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are computed based on the weighted average number of shares of common stock outstanding during the period. Common stock equivalents are included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive.

The following table sets forth the calculation of basic and diluted earnings (loss) per share for the periods indicated (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net loss	$(26,947)	$(129,727)
Weighted average common shares outstanding:		
Basic shares outstanding	1,041,028	1,000,845
Diluted shares outstanding	1,041,028	1,000,845
Loss per share:		
Basic	(0.03)	(0.13)
Diluted	(0.03)	(0.13)

For the three months ended March 31, 2016 and March 31, 2015, 204.5 million and 199.8 million, respectively, shares of potential common stock were excluded from diluted shares outstanding because the effects of potentially dilutive securities would be anti-dilutive.

13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the Company's issuance of the 8.00% Notes issued in 2013, certain of the Company's 100% owned domestic subsidiaries (the "Guarantor Subsidiaries"), fully, unconditionally, jointly, and severally guaranteed the payment obligations under the 8.00% Notes Issued in 2013. The following financial information sets forth, on a consolidating basis, the balance sheets, statements of operations and statements of cash flows for Globalstar, Inc. ("Parent Company"), for the Guarantor Subsidiaries and for the Parent Company's other subsidiaries (the "Non-Guarantor Subsidiaries").

The condensed consolidating financial information has been prepared pursuant to the rules and regulations for condensed financial information and does not include disclosures included in annual financial statements. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

Globalstar, Inc.
Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2016
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenues	$16,938	$ 7,495	$ 9,425	$ (15,109)	$ 18,749
Subscriber equipment sales	328	1,692	1,677	(610)	3,087
Total revenue	17,266	9,187	11,102	(15,719)	21,836
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	4,813	1,036	2,895	(1,153)	7,591
Cost of subscriber equipment sales	144	1,428	1,215	(609)	2,178
Marketing, general and administrative	5,174	532	16,845	(13,941)	8,610
Depreciation, amortization, and accretion	18,772	220	281	(118)	19,155
Total operating expenses	28,903	3,216	21,236	(15,821)	37,534
Income (loss) from operations	(11,637)	5,971	(10,134)	102	(15,698)
Other income (expense):					
Interest income and expense, net of amounts capitalized	(8,981)	(9)	(105)	(10)	(9,105)
Derivative loss	(1,344)	—	—	—	(1,344)
Equity in subsidiary earnings	(4,351)	3,047	—	1,304	—
Other	(634)	(204)	276	(47)	(609)
Total other income (expense)	(15,310)	2,834	171	1,247	(11,058)
Income (loss) before income taxes	(26,947)	8,805	(9,963)	1,349	(26,756)
Income tax expense	—	—	191	—	191
Net income (loss)	$(26,947)	$ 8,805	$ (10,154)	$ 1,349	$ (26,947)
Comprehensive income (loss)	$(26,947)	$ 8,805	$ (10,808)	$ 1,352	$ (27,598)

Globalstar, Inc.
Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2015
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenues	$15,052	$ 7,678	$ 8,297	$ (13,920)	$ 17,107
Subscriber equipment sales	58	3,449	2,498	(2,090)	3,915
Total revenue	15,110	11,127	10,795	(16,010)	21,022
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	4,535	1,525	3,238	(1,864)	7,434
Cost of subscriber equipment sales	(18)	3,306	2,446	(2,603)	3,131
Marketing, general and administrative	4,509	1,159	14,450	(11,522)	8,596
Depreciation, amortization, and accretion	18,549	298	323	(124)	19,046
Total operating expenses	27,575	6,288	20,457	(16,113)	38,207
Income (loss) from operations	(12,465)	4,839	(9,662)	103	(17,185)
Other income (expense):					
Interest income and expense, net of amounts capitalized	(8,336)	(10)	(171)	—	(8,517)
Derivative loss	(107,865)	—	—	—	(107,865)
Equity in subsidiary earnings	(2,723)	3,465	—	(742)	—
Other	1,741	526	1,747	54	4,068
Total other income (expense)	(117,183)	3,981	1,576	(688)	(112,314)
Income (loss) before income taxes	(129,648)	8,820	(8,086)	(585)	(129,499)
Income tax expense	79	23	126	—	228
Net income (loss)	$(129,727)	$ 8,797	$ (8,212)	$ (585)	$ (129,727)
Comprehensive income (loss)	$(129,727)	$ 8,797	$ (9,502)	$ (585)	$ (131,017)

Globalstar, Inc.
Condensed Consolidating Balance Sheet
As of March 31, 2016
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$7,580	$801	$ 3,478	$—	$11,859
Accounts receivable	4,586	4,749	4,699	411	14,445
Intercompany receivables	857,010	523,329	57,437	(1,437,776)	—
Inventory	2,160	5,837	3,358	—	11,355
Prepaid expenses and other current assets	2,361	344	1,696	—	4,401
Total current assets	873,697	535,060	70,668	(1,437,365)	42,060
Property and equipment, net	1,061,239	4,847	4,600	(247)	1,070,439
Restricted cash	37,918	—	—	—	37,918
Intercompany notes receivable	11,583	—	16,295	(27,878)	—
Investment in subsidiaries	(275,352)	24,049	33,526	217,777	—
Prepaid second-generation ground costs	4,501	—	—	—	4,501
Intangible and other assets, net	11,611	235	505	(13)	12,338
Total assets	$1,725,197	$564,191	$ 125,594	$(1,247,726)	$1,167,256
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$32,835	$—	$ —	$—	$32,835
Accounts payable	2,050	2,959	1,126	—	6,135
Accrued contract termination charge	19,908	—	—	—	19,908
Accrued expenses	15,267	5,621	5,956	—	26,844
Intercompany payables	600,446	614,735	230,292	(1,445,473)	—
Payables to affiliates	615	—	—	—	615
Deferred revenue	2,095	17,362	5,139	—	24,596
Total current liabilities	673,216	640,677	242,513	(1,445,473)	110,933
Long-term debt, less current portion	555,015	—	—	—	555,015
Employee benefit obligations	4,856	—	—	—	4,856
Intercompany notes payable	6,005	—	13,725	(19,730)	—
Derivative liabilities	240,982	—	—	—	240,982
Deferred revenue	5,905	320	—	—	6,225
Debt restructuring fees	20,795	—	—	—	20,795
Other non-current liabilities	1,520	310	9,717	—	11,547
Total non-current liabilities	835,078	630	23,442	(19,730)	839,420
Stockholders' (deficit) equity	216,903	(77,116)	(140,361)	217,477	216,903
Total liabilities and stockholders' equity	$1,725,197	$564,191	$ 125,594	$(1,247,726)	$1,167,256

Globalstar, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2015
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$3,530	$719	$ 3,227	$—	$7,476
Accounts receivable	4,521	5,215	4,461	339	14,536
Intercompany receivables	859,370	465,488	34,742	(1,359,600)	—
Inventory	2,148	6,321	3,554	—	12,023
Prepaid expenses and other current assets	2,399	291	1,766	—	4,456
Total current assets	871,968	478,034	47,750	(1,359,261)	38,491
Property and equipment, net	1,069,605	3,722	4,587	(354)	1,077,560
Restricted cash	37,918	—	—	—	37,918
Intercompany notes receivable	12,037	—	14,994	(27,031)	—
Investment in subsidiaries	(298,976)	9,512	32,946	256,518	—
Prepaid second-generation ground costs	8,929	—	—	—	8,929
Intangible and other assets, net	11,384	280	464	(11)	12,117
Total assets	$1,712,865	$491,548	$ 100,741	$(1,130,139)	$1,175,015
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$32,835	$—	$ —	$—	$32,835
Accounts payable	4,292	2,439	1,387	—	8,118
Accrued contract termination charge	19,121	—	—	—	19,121
Accrued expenses	9,816	6,949	5,674	—	22,439
Intercompany payables	580,383	604,999	179,105	(1,364,487)	—
Payables to affiliates	616	—	—	—	616
Deferred revenue	1,980	17,722	4,200	—	23,902
Total current liabilities	649,043	632,109	190,366	(1,364,487)	107,031
Long-term debt, less current portion	548,286	—	—	—	548,286
Employee benefit obligations	4,810	—	—	—	4,810
Intercompany notes payable	5,564	—	13,970	(19,534)	—
Derivative liabilities	239,642	—	—	—	239,642
Deferred revenue	6,027	386	—	—	6,413
Debt restructuring fees	20,795	—	—	—	20,795
Other non-current liabilities	1,567	305	9,035	—	10,907
Total non-current liabilities	826,691	691	23,005	(19,534)	830,853
Stockholders' (deficit) equity	237,131	(141,252)	(112,630)	253,882	237,131
Total liabilities and stockholders' equity	$1,712,865	$491,548	$ 100,741	$(1,130,139)	$1,175,015

Globalstar, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2016
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows provided by operating activities:	$1,175	$ 1,218	$ 210	$ —	$ 2,603
Cash flows used in investing activities:					
Second-generation network costs (including interest)	(1,560)	—	(38)	—	(1,598)
Property and equipment additions	(1,732)	(1,136)	(81)	—	(2,949)
Purchase of intangible assets	(361)	—	—	—	(361)
Net cash used in investing activities	(3,653)	(1,136)	(119)	—	(4,908)
Cash flows provided by financing activities:					
Proceeds from issuance of stock to Terrapin	6,500	—	—	—	6,500
Proceeds from issuance of common stock and exercise of options and warrants	28	—	—	—	28
Net cash provided by financing activities	6,528	—	—	—	6,528
Effect of exchange rate changes on cash	—	—	160	—	160
Net increase in cash and cash equivalents	4,050	82	251	—	4,383
Cash and cash equivalents, beginning of period	3,530	719	3,227	—	7,476
Cash and cash equivalents, end of period	$7,580	$ 801	$ 3,478	$ —	$ 11,859

Globalstar, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2015
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows provided by operating activities	$1,401	$ 673	$ 447	$ —	$ 2,521
Cash flows used in investing activities:					
Second-generation network costs (including interest)	(4,018)	—	—	—	(4,018)
Property and equipment additions	(747)	(259)	(127)	—	(1,133)
Purchase of intangible assets	(657)	—	—	—	(657)
Net cash used in investing activities	(5,422)	(259)	(127)	—	(5,808)
Cash flows provided by financing activities:					
Proceeds from issuance of common stock and exercise of options and warrants	61	—	—	—	61
Proceeds from equity issuance to related party	10,000	—	—	—	10,000
Net cash provided by financing activities	10,061	—	—	—	10,061
Effect of exchange rate changes on cash	—	—	(240)	—	(240)
Net increase in cash and cash equivalents	6,040	414	80	—	6,534
Cash and cash equivalents, beginning of period	3,166	672	3,283	—	7,121
Cash and cash equivalents, end of period	$9,206	$ 1,086	$ 3,363	$ —	$ 13,655

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

Certain statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q (the "Report"), other than purely historical information, including, but not limited to, estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions, although not all forward-looking statements contain these identifying words. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements, such as the statements regarding our ability to develop and expand our business (including our ability to monetize our spectrum rights), our anticipated capital spending, our ability to manage costs, our ability to exploit and respond to technological innovation, the effects of laws and regulations (including tax laws and regulations) and legal and regulatory changes (including regulation related to the use of our spectrum), the opportunities for strategic business combinations and the effects of consolidation in our industry on us and our competitors, our anticipated future revenues, our anticipated financial resources, our expectations about the future operational performance of our satellites (including their projected operational lives), the expected strength of and growth prospects for our existing customers and the markets that we serve, commercial acceptance of new products, problems relating to the ground-based facilities operated by us or by independent gateway operators, worldwide economic, geopolitical and business conditions and risks associated with doing business on a global basis and other statements contained in this Report regarding matters that are not historical facts, involve predictions. Risks and uncertainties that could cause or contribute to such differences include, without limitation, those in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on February 26, 2016 (the "2015 Annual Report"). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Report to reflect actual results or future events or circumstances.

New risk factors emerge from time to time, and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

This "Management's Discussion and Analysis of Financial Condition" should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition" and information included in our 2015 Annual Report.

Overview

Globalstar, Inc. (“we,” “us” or the “Company”) provides Mobile Satellite Services (“MSS”) including voice and data communications services globally via satellite. By providing wireless communications services in areas not served or underserved by terrestrial wireless and wireline networks and in circumstances where terrestrial networks are not operational due to natural or man-made disasters, we seek to meet our customers' increasing desire for connectivity. We offer voice and data communication services over our network of in-orbit satellites and our active ground stations (or “gateways”), which we refer to collectively as the Globalstar System.

We currently provide the following communications services via satellite. These services are available only with equipment designed to work on our network:

- two-way voice communication and data transmissions (“Duplex”) using mobile or fixed devices; and
- one-way data transmissions ("Simplex") using a mobile or fixed device that transmits its location and other information to a central monitoring station, which includes certain SPOT and Simplex products.

We have integrated our second-generation satellites with our first-generation satellites to form our second-generation constellation of Low Earth Orbit (“LEO”) satellites. The restoration of our constellation’s Duplex capabilities was complete in August 2013 forming the world's most modern satellite network.

This restoration of Duplex capabilities resulted in a substantial increase in service levels, making our products and services more desirable to existing and potential customers. We offer a range of price-competitive products to the industrial, governmental and consumer markets. Due to the unique design of the Globalstar System (and based on customer input), we believe that we offer the best voice quality among our peer group.

We designed our second-generation satellites to last twice as long in space, have 40% greater capacity and be built at a significantly lower cost compared to our first-generation satellites. We achieved this longer life by increasing the solar array and battery capacity, using a larger fuel tank, adding redundancy for key satellite equipment, and improving radiation specifications and additional lot level testing for all susceptible electronic components, in order to account for the accumulated dosage of radiation encountered during a 15-year mission at the operational altitude of the satellites. The second-generation satellites use passive S-band antennas on the body of the spacecraft providing additional shielding for the active amplifiers which are located inside the spacecraft, unlike the first-generation amplifiers that were located on the outside as part of the active antenna array. Each satellite has a high degree of on-board subsystem redundancy, an on-board fault detection system and isolation and recovery for safe and quick risk mitigation.

We define a successful level of service for our customers as their ability to make uninterrupted calls of average duration for a system-wide average number of minutes per month. Our goal is to provide service levels and call success rates equal to or better than our MSS competitors so our products and services are attractive to potential customers. We define voice quality as the ability to easily hear, recognize and understand callers with imperceptible delay in the transmission. Due to the unique design of the Globalstar System, by this measure our system outperforms geostationary (“GEO”) satellites used by some of our competitors. Due to the difference in signal travel distance, GEO satellite signals must travel approximately 42,000 additional nautical miles, which introduces considerable delay and signal degradation to GEO calls. For our competitors using cross-linked satellite architectures, which require multiple inter-satellite connections to complete a call, signal degradation and delay can result in compromised call quality as compared to that experienced over the Globalstar System.

We also compete aggressively on price. Our MSS handsets are priced lower than those of our main MSS competitors, providing access to MSS services to a broader range of subscribers. We expect to retain our position as the low cost, high quality leader in the MSS industry.

Our satellite communications business, by providing critical mobile communications to our subscribers, serves principally the following markets: recreation and personal; government; public safety and disaster relief; oil and gas; maritime and fishing; natural resources, mining and forestry; construction; utilities; and transportation.

At March 31, 2016, we served approximately 687,000 subscribers, which number increased 6% from March 31, 2015. We count "subscribers" based on the number of devices that are subject to agreements which entitle them to use our voice or data communications services rather than the number of persons or entities who own or lease those devices.

We designed our second-generation constellation to support our current lineup of Duplex, SPOT and Simplex products. With the improvement in both coverage and service quality resulting from the deployment of our second-generation constellation and with the release of new product and service offerings, we anticipate further expansion of our subscriber base.

Our products and services are sold through a variety of independent agents, dealers and resellers, and independent gateway operators (“IGOs”). We have distribution relationships with a number of "Big Box" and online retailers and other similar distribution channels which expands the diversification of our distribution channels.

Performance Indicators

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality of and potential variability of our earnings and cash flows. These key performance indicators include:

- total revenue, which is an indicator of our overall business growth;
- subscriber growth and churn rate, which are both indicators of the satisfaction of our customers;
- average monthly revenue per user, or ARPU, which is an indicator of our pricing and ability to obtain effectively long-term, high-value customers. We calculate ARPU separately for each type of our Duplex, Simplex, SPOT and IGO revenue;
- operating income and adjusted EBITDA, both of which are indicators of our financial performance; and
- capital expenditures, which are an indicator of future revenue growth potential and cash requirements.

Comparison of the Results of Operations for the three months ended March 31, 2016 and 2015

Revenue

(3)
The grant date fair value of RSUs and PSAs were reduced by the present value of dividends expected to be paid on the underlying shares of common stock during the requisite and derived service period as these awards are not entitled to receive dividends until vested. During the nine months ended September 30, 2016, the Company declared quarterly cash dividends of $0.10 per share of common stock on January 27, 2016, April 28, 2016, and July 26, 2016, which were paid on March 22, 2016, June 22, 2016, and September 22, 2016, respectively, to stockholders of record on March 1, 2016, June 1, 2016, and September 1, 2016, respectively, in the aggregate amount of $114.4 million.

Employee Stock Purchase Plan

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

Valuation Assumptions

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

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

(1) The fair value of ESPP and stock options assumed utilizes the Black-Scholes-Merton option-pricing model.

(2) The fair value of market-based RSUs utilizes the Monte Carlo valuation methodology. The Company amortizes the fair value of these awards over the derived service period adjusted for estimated forfeitures for each separately vesting tranche of the award. Provided that the derived service is rendered, the total fair value of the market-based RSUs at the date of grant is recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria.

Share-Based Compensation Expense

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

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

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

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

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

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

Note 12. Segments

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

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Juniper Networks, Inc.
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Net revenues by product and service were as follows (in millions):

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

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

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

No customer accounted for 10% or more of the Company's net revenues during the three and nine months ended September 30, 2016 and September 30, 2015, respectively.
The geographic information for property and equipment, net and purchased intangible assets, net was as follows (in millions):

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

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

Note 13. Income Taxes

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

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

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

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

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

As of September 30, 2016, the total amount of gross unrecognized tax benefits was $220.4 million, of which $190.7 million, if recognized, would affect the Company's effective tax rate. As a result of the closure of the California Franchise Tax Board (“FTB”) audit discussed below, the gross unrecognized tax benefits was reduced by approximately $14.3 million, which did not affect the Company’s effective tax rate.

The Company engages in continuous discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. There is a greater than remote likelihood that the balance of the gross unrecognized tax benefits will decrease by approximately $5.4 million within the next twelve months due to lapses of applicable statutes of limitations and the completion of tax review cycles in various tax jurisdictions.

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

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

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

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

India tax laws and intends to defend this position vigorously.

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

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Juniper Networks, Inc.
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Note 14. Net Income per Share

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

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

Basic net income per share is computed using net income available to common stockholders and the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed using net income available to common stockholders and the weighted-average number of common shares outstanding plus dilutive common shares outstanding during the period. Dilutive potential common shares consist of common shares issuable upon exercise of stock options, issuances of ESPP, and vesting of RSUs, RSAs, and PSAs. The Company includes the common shares underlying PSAs in the calculation of diluted net income per share only when they become contingently issuable. Anti-dilutive shares are excluded from the computation of diluted net income per share.

Note 15. Commitments and Contingencies

Commitments

Operating Leases

The Company leases its facilities and certain equipment under non-cancelable operating leases that expire at various dates through August 31, 2026. Certain leases require the Company to pay variable costs such as taxes, maintenance, and insurance and include renewal options and escalation clauses. Future minimum payments under the non-cancelable operating leases totaled $121.9 million as of September 30, 2016. Rent expense was $9.6 million and $29.2 million for the three and nine months ended September 30, 2016, respectively, and $10.8 million and $33.2 million for the three and nine months ended September 30, 2015, respectively.

Data Center Lease Agreement

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

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

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

Purchase Commitments with Contract Manufacturers and Suppliers

In order to reduce manufacturing lead times and in the interest of having access to adequate component supply, the Company enters into agreements with contract manufacturers and certain suppliers to procure inventory based on the Company's requirements. A significant portion of the Company's purchase commitments arising from these agreements consists of firm and non-cancelable commitments. These purchase commitments totaled $592.7 million as of September 30, 2016.

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

Debt and Interest Payment on Debt

As of September 30, 2016, the Company held long-term debt consisting of the Notes with a carrying value of $2,133.1 million. Of these Notes, $350.0 million will mature in 2019 and bears interest at a fixed rate of 3.125%, $300.0 million will mature in 2020 and bears interest at a fixed rate of 3.30%, $300.0 million will mature in 2021 and bears interest at a fixed rate of 4.60%, $500.0 million will mature in 2024 and bears interest at a fixed rate of 4.50%, $300.0 million will mature in 2025 and bears interest at a fixed rate of 4.35%, and $400.0 million will mature in 2041 and bears interest at a fixed rate of 5.95%. Interest on the Notes is payable semiannually. See Note 9, Debt and Financing, for further discussion of the Company's long-term debt.

Tax Liabilities

As of September 30, 2016, the Company had $205.1 million included in long-term income taxes payable in the Condensed Consolidated Balance Sheets for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to this amount due to uncertainties in the timing of tax audit outcomes.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company's products solely, or in combination with other third party products, infringe the intellectual property rights of a third-party. As of September 30, 2016, the Company recorded $30.5 million for such indemnification obligations in other accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets. The Company also has financial guarantees consisting of guarantees of product and service performance, standby letters of credit for certain lease facilities and insurance programs, and guarantees related to third-party customer-financing arrangements of $6.5 million and $15.8 million, as of September 30, 2016 and December 31, 2015, respectively.

Legal Proceedings

Investigations

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

Other Litigation

In addition to the investigations discussed above, the Company is involved in other disputes, litigations, and legal proceedings. The Company intends to aggressively defend itself in these matters, and while there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that none of these existing claims or proceedings are likely to have a material adverse effect on its financial position. Notwithstanding the foregoing, there are many uncertainties associated with any litigation and these matters or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, if any, which could result in the need to adjust the liability and record additional expenses.

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

Note 16. Subsequent Events

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

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

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

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

To aid in understanding our operating results for the periods covered by this Report, we have provided an executive overview and summary of our business and market environment along with a financial results overview. These sections should be read in conjunction with the more detailed discussion and analysis of our condensed consolidated financial condition and results of operations in this Item 2, our “Risk Factors” section included in Item 1A of Part II of this Report, and our unaudited Condensed Consolidated Financial Statements and Notes included in Item 1 of Part I of this Report, as well as our audited Consolidated Financial Statements and Notes included in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Business and Market Environment

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

Our products are sold globally in three geographic regions: Americas; Europe, Middle East, and Africa, or EMEA; and Asia Pacific, or APAC. Our high-performance routing, switching, and security networking products and service offerings are sold to Service Provider and Enterprise markets. We believe that our silicon, systems, and software represent innovations that transform the economics and experience of networking, helping our customers achieve superior performance, greater choice, and flexibility, while reducing overall total cost of ownership. In addition to our products, we offer technical support and professional services, as well as education and training programs to our customers.

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

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

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Financial Results and Key Performance Metrics Overview

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

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

	September 30, 2016	December 31, 2015	$ Change	% Change
Deferred revenue	$1,304.1	$1,168.1	$136.0	12 %

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

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

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

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

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

Operating Margin: Our operating income as a percentage of net revenues decreased during the third quarter of 2016, compared to the same period in 2015, due to increased operating expenses primarily resulting from higher personnel-related expenses and expenses associated with the acquisitions of BTI and Aurrion as well as the decline in gross margin as a percentage of revenue.
Capital Return: We continued to deliver on our previously announced capital return program. In the third quarter of 2016, we repurchased 4.9 million of shares of our common stock and paid a quarterly cash dividend of $0.10 per share for an aggregate amount of $150.4 million. Since the first quarter of 2014, inclusive of share repurchases and dividends, we have returned approximately $4.06 billion of capital against our previously announced intention to return a total of $4.1 billion by the end of 2016. Beginning in 2017, we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. Free cash flow is calculated as net cash provided by operating activities less capital expenditures.
On October 25, 2016, we announced a cash dividend of $0.10 per share of common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016.

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

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

Critical Accounting Policies and Estimates

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

An accounting policy is considered to be critical if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the effect of the estimates and assumptions on financial condition or operating performance is material.

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

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

- Income Taxes; and
- Loss Contingencies.

During the nine months ended September 30, 2016, there were no significant changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015.

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Recent Accounting Pronouncements

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

Results of Operations

We sell our high-performance networking products and service offerings across routing, switching, and security to two primary markets: Service Provider and Enterprise. Our determination of the market to which a particular revenue transaction relates is based primarily upon the customer's industrial classification code, but may also include subjective factors such as the intended use of the product. The service provider market generally includes wireline and wireless carriers, and cable operators, as well as major Internet content and application providers. The Enterprise market is generally comprised of businesses; federal, state, and local governments; research and education institutions; and financial services.

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

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

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

Routing

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

Switching

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

Security

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

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Service

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

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

Routing

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

Switching

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

Security

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

Service

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

Net Revenues by Geographic Region

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

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

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

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

Americas

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

EMEA

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

APAC

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

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

Americas

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

EMEA

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

APAC

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

Net Revenues by Market and Customer

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

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

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

Service Provider

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

Enterprise

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

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

Service Provider

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

Enterprise

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

Customer

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

Gross Margins

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

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

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

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

Product gross margin

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

Service gross margin

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

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

Product gross margin

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

Service gross margin

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

Operating Expenses

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

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

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

N/M - Percentage change is not meaningful.

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

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

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

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

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

Share-Based Compensation

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

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

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

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

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Other Expense, Net and Income Tax Provision

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

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

Other Expense, Net

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

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

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

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

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

Income Tax Provision

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

(*) During the nine months ended September 30, 2016, we adopted Accounting Standards Update, or ASU, No. 2015-03 (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. Short-term and long-term debt as of December 31, 2015 was retrospectively adjusted to conform to the current-year presentation.

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by short-term debt, accounts payable, accrued liabilities, and short-term deferred revenue. Working capital increased by $810.5 million during the nine months ended September 30, 2016 primarily due to $772.2 million of cash provided from our operating activities and $494.0 million of proceeds received from the issuance of long-term debt, partially offset by $438.3 million of payments for purchases and retirement of our common stock and cash dividends.

Summary of Cash Flows

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

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Stock Repurchase Activities

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

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

From the first quarter of 2014 through September 30, 2016, inclusive of share repurchases and dividends, we have returned approximately $4.06 billion of capital to shareholders against our commitment to return $4.1 billion by the end of 2016. On October 25, 2016, the Company announced that it had declared a cash dividend of $0.10 per share of common stock payable on December 22, 2016 to stockholders of record as of the close of business on December 1, 2016. As such, we expect to achieve our full commitment to return $4.1 billion by the end of 2016. Beginning in 2017, we intend to target a capital return policy, inclusive of share repurchases and dividends, of approximately 50% of annual free cash flow. Free cash flow is calculated as net cash provided by operating activities less capital expenditures.

Future stock repurchases under our stock repurchase program will be subject to a review of the circumstances at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. See Note 16, Subsequent Events, in Notes to Condensed Consolidated Financial Statements in Item 1 Part I of this Report, for discussion of our stock repurchase activity subsequent to September 30, 2016.

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Dividends

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

Deferred Revenue

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

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

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

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any relationships with structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. It is not our business practice to enter into off-balance sheet arrangements. However, in the normal course of business, we enter into financial guarantees consisting of guarantees of product and service performance and standby letters of credit for certain lease facilities and insurance programs. See Note 15, Commitments and Contingencies, in Notes to the Condensed Consolidated Financial Statements in Item 1 of Part I of this Report for additional information regarding our guarantees.

Contractual Obligations

As of September 30, 2016, our principal commitments consist of obligations under operating leases, purchase commitments, debt, and other contractual obligations. There have been no significant changes to the nature of these obligations, during the nine months ended September 30, 2016 compared to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, other than the obligations listed in the table below (in millions):

Payments Due by Period

Total

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

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

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

Revolving Credit Facility

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

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

Liquidity and Capital Resources

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions and investments in strategic relationships that we have made or we may make in the future. Additionally, beginning in 2017 we intend to target a capital return policy of approximately 50% of annual free cash flow, inclusive of share repurchases and dividends. To the extent we repurchase additional shares of our common stock under our stock repurchase program or pay cash dividends on our common stock, our liquidity may be impacted. As of September 30, 2016, 91% of our cash, cash equivalents, and investment balances were held outside of the U.S., which may be subject to U.S. taxes if repatriated.

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

We have been focused on managing our annual equity usage as a percentage of the common stock outstanding to align with peer group competitive levels and have made changes in recent years to reduce the number of shares underlying the equity awards we grant. For fiscal year 2016, we intend to target the number of shares underlying equity awards granted on an annual basis at 2.40% or less of our common stock outstanding on a pure share basis (where each option, RSU, RSA or PSA granted is counted as one share). Based upon shares underlying our grants to date of options, RSUs, RSAs, and PSAs, we believe we are on track with respect to this goal for 2016.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term, and long-term investments, together with cash generated from operations and access to capital markets and the revolving credit facility under the Credit Agreement will be sufficient to fund our operations, planned stock repurchases and dividends, and anticipated growth for at least the next twelve months. We believe our working capital is sufficient to meet our liquidity requirements for capital expenditures, commitments, and other liquidity requirements associated with our existing operations during the same period. However, our future liquidity and capital requirements may vary materially from those now planned depending on many factors, including, but not limited to:

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

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

- repurchases of our common stock;

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- payment of dividends;
- incurrence and repayment of debt and related interest obligations;
- litigation expenses, settlements, and judgments, or similar items related to resolution of tax audits;
- volume price discounts and customer rebates;
- accounts receivable levels that we maintain;
- acquisitions and/or funding of other businesses, assets, products, or technologies;
- changes in our compensation policies;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors' responses to our products and/or pricing;
- our relationships with suppliers, partners, and customers;
- possible future investments in raw material and finished goods inventories;
- expenses related to future restructuring plans;
- tax expense associated with share-based awards;
- issuance of share-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
- level of exercises of stock options and stock purchases under our equity incentive plans; and
- general economic conditions and specific conditions in our industry and markets, including the effects of disruptions in global credit and financial markets, international conflicts, and related uncertainties.

Factors That May Affect Future Results

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2015. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls Over Financial Reporting

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

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

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the "Legal Proceedings" section in Note 15, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, is incorporated herein by reference.

Item 1A. Risk Factors

Factors That May Affect Future Results

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

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

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

The factors that may cause our quarterly results to vary quarter by quarter and be unpredictable include, but are not limited to: limited visibility into customer spending plans, changes in the mix of products and services sold, changes in the mix of geographies in which our products and services are sold, changing market and economic conditions, current and potential customer, partner and supplier consolidation and concentration, competition, long sales and implementation cycles, unpredictable ordering patterns, changes in the amount and frequency of share repurchases or dividends, regional economic and political conditions, and seasonality. For example, we, and many companies in our industry, experience adverse seasonal fluctuations in customer spending, particularly in the first quarter. Furthermore, market trends, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, issues with product quality, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may necessitate adjustments to our operations. Such adjustments may be difficult or impossible to execute in the short or medium term.

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

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

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

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

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

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

From time to time, we have increased investment in our business by, for example, increasing headcount and increasing our investment in R&D, sales and marketing, and other parts of our business. Conversely, in 2014, to refocus the Company’s strategy, optimize its structure and improve operational efficiencies, we implemented a new strategic focus, realigned our organization into a One-Juniper structure, reduced our workforce, consolidated and closed facilities, made changes to enhance efficiency, improved cost management measures and instituted a new capital allocation plan. In connection with our cost management measures, we implemented a substantial cost reduction plan accomplished through various restructuring activities across research and development, sales and marketing and general and administrative. We recorded a goodwill impairment charge of $850.0 million in the fourth quarter of 2014 due to the underperformance of our Security reporting unit and product rationalizations. Further strategy-related pivots could lead to delays in achieving revenue and profit forecasts and result in additional impairment. Some of our expenses are fixed costs that cannot be rapidly or easily adjusted in response to fluctuations in our business or numbers of employees. Rapid changes in the size, alignment or organization of our workforce, including sales account coverage, could adversely affect our ability to develop and deliver products and services as planned or impair our ability to realize our current or future business and financial objectives. Our ability to achieve the anticipated cost savings and other benefits from our restructuring initiatives within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we are unsuccessful at implementing changes, or if other unforeseen events occur, our business and results of operations could be adversely affected.

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

We expect our product and service gross margins to vary, both in the near-term and in the long-term, and the gross margins we have achieved in recent years may not be sustainable and may be adversely affected in the future by numerous factors, including customer, product and geographic mix shifts, an increase or decrease in our software sales or services we provide, increased price competition in one or more of the markets in which we compete, changes in the actions of our competitors or their pricing strategies, which may be difficult to predict and respond to, currency fluctuations that impact our costs or the cost of our products and services to our customers, increases in material, labor, or inventory carrying costs, excess product component or obsolescence charges from our contract manufacturers, issues with manufacturing quality or efficiencies, increased costs due to changes in component pricing or charges incurred due to component holding periods if we do not accurately forecast product demand, warranty related issues, or our introduction of new products and enhancements or entry into new markets with different pricing and cost structures. For example, in fiscal year 2015, our margins increased compared to fiscal year 2014, as a result of higher restructuring and other (benefit) charges recorded in 2014 but not in 2015, in connection with the restructuring plan we initiated in the first quarter of 2014. In fiscal year 2014, our margins declined compared to fiscal year 2013, as a result of higher inventory charges resulting from product rationalizations in connection with our 2014 restructuring plan and an industry-wide memory product quality defect for a component from a third party. We determine our operating expenses largely on the basis of anticipated revenues and a high percentage of our expenses are fixed in the short and medium term. As a result, a failure or delay in generating or recognizing revenue could cause significant variations in our operating results and operating margin from quarter-to-quarter. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

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

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A limited number of our customers comprise a material portion of our revenues and any changes in the way they purchase products from us could affect our business. In addition, there is an ongoing trend toward consolidation in the industry in which our customers and partners operate. Any decrease in revenues from our customers or partners could have an adverse effect on our net revenues and operating results.

A material portion of our net revenues depend on sales to a limited number of customers and distribution partners, particularly in our service provider market. Changes in the business requirements or focus, vendor selection, project prioritization, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers could significantly decrease our sales to such customers or could lead to delays or cancellations of planned purchases of our products or services, which increases the risk of quarterly fluctuations in our revenues and operating results. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition, in recent years, there has been movement towards consolidation in the telecommunications industry (for example, Altice’s purchase of Cablevision and Portugal Telecom, Liberty Global's acquisition of Cable & Wireless Communications, Charter Communications, Inc.'s acquisition of Time Warner Cable, Inc., and CenturyLink's proposed acquisition of Level 3 Communications) and that consolidation trend has continued. Certain telecommunications companies have also announced their intent towards vertical consolidation through acquisitions of media and content companies, such as Verizon’s proposed acquisition of Yahoo and AT&T’s proposed acquisition of Time Warner. If our customers or partners are parties to consolidation transactions they may delay, suspend or indefinitely reduce or cancel their purchases of our products or other direct or indirect unforeseen consequences could harm our business, financial condition, and results of operations.

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

Competition is intense in the markets that we serve. The network equipment market has historically been dominated by Cisco, with competition coming from other companies such as Nokia Corporation (following its acquisition of Alcatel-Lucent), Arista, Brocade, HP, and Huawei. In the security market, we face intense competition from Cisco and Palo Alto Networks, as well as companies such as Check Point, F5 Networks, Fortinet, and HP. Further, a number of other small public and private companies have products or have announced plans for new products to address the same challenges and markets that our products address.

In addition, actual or speculated consolidation among competitors, or the acquisition by, or of, our partners and/or resellers by competitors can increase the competitive pressures faced by us as customers may delay spending decisions or not purchase our products at all. For example, in recent years, Nokia Corporation merged with Alcatel-Lucent, HP acquired Aruba Networks, Cisco acquired OpenDNS, Symantec Corporation acquired Blue Coat Systems, and Dell acquired EMC, which further consolidated our market. A number of our competitors have substantially greater resources and can offer a wider range of products and services for the overall network equipment market than we do. In addition, some of our competitors have become more integrated, including through consolidation, and offer a broader range of products and services, which could make their solutions more attractive to our customers. Many of our competitors sell networking products as bundled solutions with other IT products, such as computer and storage systems. If we are unable to compete successfully against existing and future competitors on the basis of product offerings or price, we could experience a loss in market share and revenues and/or be required to reduce prices, which could reduce our gross margins, and which could materially and adversely affect our business, financial condition, and results of operations. Our partners and resellers generally sell or resell competing products on a non-exclusive basis and consolidation could delay spending or require us to increase discounts to compete, which could also adversely affect our business.

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

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

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

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

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

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

Additionally, we determine our operating expenses largely on the basis of anticipated revenues and a high percentage of our expenses are fixed in the short and medium term. As a result, a failure or delay in generating or recognizing revenue could cause significant variations in our operating results and operating margin from quarter-to-quarter.

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

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

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

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

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

- the additional development efforts and costs required to create new software products and/or to make our disaggregated products compatible with multiple technologies;
- the possibility that our new software products or disaggregated products may not achieve widespread customer adoption;
- the potential that our strategy could erode our revenue and gross margins;
- the impact on our financial results of longer periods of revenue recognition and changes in tax treatment associated with software sales;
- the additional costs associated with regulatory compliance and changes we need to make to our distribution chain in connection with increased software sales;
- the ability of our disaggregated hardware and software products to operate independently and/or to integrate with current and future third party products; and
- the risk that issues with third party technologies used with our disaggregated products will be attributed to us.

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

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

We depend on independent contract manufacturers (each of which is a third-party manufacturer for numerous companies) to manufacture our products. Although we have contracts with our contract manufacturers, these contracts do not require them to manufacture our products on a long-term basis in any specific quantity or at any specific price. In addition, it is time-consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we fail to effectively manage our contract manufacturer relationships, which includes failing to provide accurate forecasts of our requirements, or if one or more of them experiences delays, disruptions, or quality control problems in our manufacturing operations, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. We have experienced in the past and may experience in the future an increase in the expected time required to manufacture our products or ship products. Such delays could result in supply shortfalls that damage our ability to meet customer demand for those products and could cause our customers to purchase alternative products from our competitors. Also, the addition of manufacturing locations or contract manufacturers or the introduction of new products by us would increase the complexity of our supply chain management. Moreover, an increasing portion of our manufacturing is performed in China and other countries and is therefore subject to risks associated with doing business outside of the United States. Each of these factors could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

As a result of the ScreenOS matter, or any other actual or perceived breach of network security that occurs in our network or in the network of a customer of our products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products and our overall reputation could be harmed. Because the techniques used by attackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques or the vulnerabilities they have caused. This could impede our sales, manufacturing, distribution or other critical functions, which could have an adverse impact on our financial results. The economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities, including the ScreenOS matter, could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the attacker, which are often

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

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

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

The development of alternate sources for key components is time-consuming, difficult, and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. Also, long-term supply and maintenance obligations to customers increase the duration for which specific components are required, which may further increase the risk of component shortages or the cost of carrying inventory. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver products and services to our customers, which would seriously affect present and future sales, which would, in turn, adversely affect our business, financial condition, and results of operations.

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

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

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added and other reseller and distribution partners, including our worldwide strategic partners such as Ericsson, IBM, Nokia Solutions and Networks O.Y., Dimension Data and NEC Corporation. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell our competitors’ products, and some of which sell their own competing products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our resellers or distributors could materially reduce our revenues. For example, in 2011 and 2012, one of our OEM partners, Dell, acquired Force10 and SonicWall, both competitors of ours. As a result, Dell became increasingly competitive in certain areas, their resale of our products declined, and we ultimately terminated our OEM relationship with Dell. In addition, in 2016, Nokia Corporation merged with Alcatel-Lucent, a competitor of ours, and Cisco recently announced a partnership with Ericsson, which is one of our existing partners. Our competitors may in some cases be effective in leveraging their market share positions or in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to develop and maintain relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, fail to expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, determine that we cannot continue to do business with these partners for any reason

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

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

Further, in order to develop and expand our distribution channel, we must continue to offer attractive channel programs to potential partners and scale and improve our processes and procedures that support the channel. As a result, our programs, processes and procedures may become increasingly complex and inherently difficult to manage. We have previously entered into OEM agreements with partners pursuant to which they rebrand and resell our products as part of their product portfolios. These types of relationships are complex and require additional processes and procedures that may be challenging and costly to implement, maintain and manage. Our failure to successfully manage and develop our distribution channel and the programs, processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products. We also depend on our global channel partners to comply with applicable legal and regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition.

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

Some of our business processes depend upon our information technology, or IT, systems, the systems and processes of third parties, and the interfaces of our systems with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. For example, although it did not adversely affect our shipments, an earthquake in late December of 2006 disrupted our communications with China, where a significant part of our manufacturing occurs. In addition, as discussed earlier in this Risk Factors section, beginning in 2012 and continuing into 2016, we have been implementing major changes to our ERP system. Any failure of the new system or interruptions during the implementation process may impair communications with our manufacturers, and, therefore, adversely affect our ability to build and ship our products.

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

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

We have made, and may continue to make, acquisitions in order to enhance our business. For example, in August 2016, we acquired Aurrion, Inc.; in April 2016, we acquired BTI Systems Inc.; in 2014, we acquired WANDL, Inc.; and in 2012, we acquired Contrail Systems Inc. and Mykonos Software, Inc. Acquisitions involve numerous risks, including, but not limited to, problems combining the purchased operations, technologies or products, unanticipated costs and liabilities, diversion of management's attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience, and potential loss of key employees. There can be no assurance that we will be able to integrate successfully any businesses, products, technologies, or personnel that we might acquire. The integration of businesses that we may acquire is likely to be a complex, time-consuming, and expensive process and we may not realize the anticipated revenues or other benefits associated with our acquisitions if we fail to successfully manage and operate the acquired business. If we fail in any acquisition integration efforts and are unable to efficiently operate as a combined organization utilizing

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common information and communication systems, operating procedures, financial controls, and human resources practices, our business, financial condition, and results of operations may be adversely affected.

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

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

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

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

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

In addition, service providers have purchased products from other vendors who promised but failed to deliver certain functionality and/or had products that caused problems or outages in the networks of these customers. As a result, these customers may request additional features from us and require substantial penalties for failure to deliver such features or may require substantial penalties for any network outages that may be caused by our products. These additional requests and penalties, if we are required to agree to them, may require us to defer revenue recognition from such sales, which may negatively affect our business, financial condition and results of operations. In addition, increased patent litigation brought against customers by non-practicing entities in recent years, may result, and in some cases has resulted, in customers requesting or requiring vendors to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations.

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

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. Third parties have asserted and may in the future assert claims or initiate litigation related to patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to our products. The asserted claims and/or initiated litigation may include claims against us or our manufacturers, suppliers, partners, or customers, alleging that our products or services infringe proprietary rights. In addition, increased patent litigation brought by non-practicing entities in recent years may result, and in some cases has resulted, in our customers requesting or requiring us to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations. Regardless of the merit of these claims, they have been and can be time-consuming, result in costly litigation, and may require us to develop non-infringing technologies, enter into license agreements, or cease engaging in certain activities or offering certain products or services. Furthermore, because of the potential for high awards of damages or injunctive relief that are not necessarily predictable, even arguably unmeritorious claims may be settled for significant amounts of money. If any infringement or other intellectual property claim made against us or anyone we are required to indemnify by any third-party is successful, if we are required to settle litigation for significant amounts of money, if we fail to develop non-infringing technology or if we license required proprietary rights, our business, financial condition, and results of operations could be materially and adversely affected.

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

We are subject to laws and regulations affecting the sale of our products in a number of areas. For example, some governments have regulations prohibiting government entities from purchasing security products that do not meet specified indigenous certification criteria, even though those criteria may be in conflict with accepted international standards. Other regulations that may negatively impact our business include country of origin regulations. These types of regulations are in effect or under consideration in several jurisdictions where we do business.

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

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

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

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

Governmental regulations and economic sanctions affecting the import or export of products generally or affecting products containing encryption capabilities could negatively affect our revenues and operating results.

The United States and various foreign governments have imposed controls and restrictions on the import or export of, among other things, our products that contain or use encryption technology. Most of our products contain or use encryption technology and, consequently, are subject to such controls, requirements and restrictions. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring certification, notifications, review of source code, limiting the encryption features or the escrow and governmental recovery of private encryption keys. For example, China recently has proposed new conditions on eligibility of encryption products for purchase by government and certain non-government organizations. India recently proposed and then withdrew regulations imposing serious conditions on the use of encryption in telecommunications products. We sell our products to both commercial customers and, directly and indirectly, to governments around the world. Our ability to sell into substantial government markets (whether or not the products we sell include encryption) is vulnerable to changes in government procurement regulations, any associated local content requirements and changes in the government’s interpretation of such regulations. In addition, the U.S. government has broader sanctions and embargoes that generally forbid supply of most items to or involving certain countries, territories, governments, legal entities and individuals, including recent restrictions imposed by the U.S. and EU on exports to Russia and Ukraine. We have implemented systems to detect and prevent sales into these countries or to prohibited entities or individuals, but there can be no assurance that they will always be effective.

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

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

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

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

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

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

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

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

We are required to test intangible assets with indefinite lives, including goodwill, annually or more frequently if certain circumstances change that would more likely than not reduce the fair value of a reporting unit and intangible assets below their carrying values. As of September 30, 2016, our goodwill was $3,048.4 million and intangible assets with indefinite lives was $49.0 million. When the carrying value of a reporting unit’s goodwill exceeds its implied fair value of goodwill, a charge to operations is recorded. If the carrying amount of an intangible asset with an indefinite life exceeds its fair value, a charge to operations is recorded. Either event would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred.

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

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

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

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

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

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

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

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

Furthermore, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled our success.

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

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

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

- changes in general IT spending,
- the imposition of government controls, inclusive of critical infrastructure protection;
- changes or limitations in trade protection laws or other regulatory requirements, which may affect our ability to import or export our products from various countries;
- varying and potentially conflicting laws and regulations;
- fluctuations in local economies;
- wage inflation or a tightening of the labor market; and
- the impact of the following on service provider and government spending patterns: political considerations, unfavorable changes in tax treaties or laws, natural disasters, epidemic disease, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, military actions, acts of terrorism, political and social unrest and difficulties in staffing and managing international operations.

Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

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

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

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

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

The majority of our revenues and expenses are transacted in U.S. Dollars. We also have some transactions that are denominated in foreign currencies, primarily the British Pound, Euro, Indian Rupee, and Japanese Yen related to our sales and service operations

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outside of the United States. An increase in the value of the U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States in which we sell in U.S. Dollars. This could negatively affect our ability to meet our customers' pricing expectations in those markets and may result in erosion of gross margin and market share. A weakened U.S. Dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

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

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

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

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

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

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

Our products are highly technical and complex, are critical to the operation of many networks, and, in the case of our security products, provide and monitor network security and may protect valuable information. Our products have contained and may contain one or more undetected errors, defects, malware, or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by end-customers. For example, in December 2015, we disclosed that we identified unauthorized code in ScreenOS that could allow a knowledgeable attacker to gain administrative access to NetScreen devices and to decrypt VPN connections.

Any errors, defects, malware or security vulnerabilities discovered in our products after commercial release could result in monetary penalties, loss of revenues or delay in revenue recognition, loss of customers, loss of future business and reputation, penalties, and increased service and warranty cost, any of which could adversely affect our business, financial condition, and results of operations. Following the identification of the ScreenOS vulnerabilities, we launched an investigation into the matter, developed patched releases for the latest versions of ScreenOS and notified customers, all of which required significant time and attention from management and our employees. In addition, in the event an error, defect, malware, or vulnerability is attributable to a component supplied by a third-party vendor, we may not be able to recover from the vendor all of the costs of remediation that we may incur. In addition, we could face claims for product liability, tort, or breach of warranty or indemnification. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention. If our business liability insurance coverage is inadequate, or future coverage is unavailable on acceptable terms or at all, our financial condition and results of operations could be harmed. Moreover,

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if our products fail to satisfy our customers' quality expectations for whatever reason, the perception of and the demand for our products could be adversely affected.

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

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

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

We integrate licensed third-party technology into certain of our products. From time to time, we may be required to license additional technology from third-parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The failure to comply with the terms of any license, including free open source software, may result in our inability to continue to use such license. Some of our agreements with our licensors may be terminated for convenience by them. In addition, we cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us, if possible, to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

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

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

We are required to evaluate the effectiveness of our internal control over financial reporting and publicly disclose material weaknesses in our controls. Any adverse results from such evaluation may adversely affect investor perception, and our stock price.

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

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

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

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

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

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

We may not be able to generate sufficient cash flow to enable us to satisfy our expenses, make anticipated capital expenditures or service our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). Our ability to pay our expenses, satisfy our debt obligations, refinance our debt obligations and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors beyond our control. Based upon current levels of operations, we believe cash flow from operations and available cash will be adequate for at least the next twelve months to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). However, if we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt (including the Notes), repatriate off-shore cash to the U.S. at unfavorable tax rates or obtain additional financing. There is no assurance that we will be able to refinance our debt, sell assets or borrow more money on terms acceptable to us, or at all.

The indentures that govern the Notes contain various covenants that limit our ability and the ability of our subsidiaries to, among other things:

- incur liens;
- incur sale and leaseback transactions; and

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

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

- maintenance of a leverage ratio no greater than 3.0x and an interest coverage ratio no less than 3.0x
- covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens, merge or consolidate, dispose of all or substantially all of its assets, change their accounting or reporting policies, change their business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type.

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

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

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

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

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

At September 30, 2016, we had $1,689.0 million in cash and cash equivalents and $1,791.1 million in short- and long-term investments. We have invested these amounts primarily in asset-backed securities, certificates of deposit, commercial paper, corporate debt securities, foreign government debt securities, government- sponsored enterprise obligations, money market funds, mutual funds, publicly-traded equity securities, time deposits and U.S. government securities. Certain of these investments are subject to general credit, liquidity, market, sovereign debt, and interest rate risks. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. These market risks associated with our investment portfolio may have a material adverse effect on our liquidity, financial condition, and results of operations.

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

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

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

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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

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

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

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

(1) Amounts include repurchases under our stock repurchase programs and repurchases of our common stock for our employees in connection with net issuances of shares to satisfy minimum tax withholding obligations for the vesting of certain stock awards.

(2) Shares were repurchased under our stock repurchase program approved by the Board in February 2014, October 2014, and July 2015, which authorized us to purchase an aggregate of up to $3.9 billion of our common stock. Future share repurchases under our capital return plan will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

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

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Item 6. Exhibits

Exhibit Number	Description of Document
10.1	Aurrion, Inc. Amended and Restated 2008 Equity Incentive Plan. (incorporated herein by reference to Exhibit 4.3 to the Registrant’s Registration Statement on Form S-8 filed with the SEC on September 2, 2016)+
10.2	Form of Severance Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on September 20, 2016)+
10.3	Form of Change of Control Agreement for Certain Officers, approved for use on September 19, 2016 (incorporated herein by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on September 20, 2016)+
12.1	Computation of Ratio of Earnings to Fixed Charges*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350*
101	The following materials from Juniper Network Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, and (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

*Filed herewith.
+Indicates management contract or compensatory plan, contract or arrangement.

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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 8, 2016	By: /s/ Kenneth B. Miller Kenneth B. Miller Executive Vice President, Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
November 8, 2016	By: /s/ Terrance F. Spidell Terrance F. Spidell Vice President, Corporate Controller and Chief Accounting Officer (Duly Authorized Officer and Principal Accounting Officer)

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

*Filed herewith.
+Indicates management contract or compensatory plan, contract or arrangement.

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