

JUNIPER NETWORKS INC
Form 10-Q
August 08, 2012

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

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from _____ to _____

Commission file number: 001-34501

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1194 North Mathilda Avenue
Sunnyvale, California
(Address of principal executive offices)
(408) 745-2000

94089
(Zip code)

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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There were approximately 526,587,746 shares of the Company's Common Stock, par value \$0.00001, outstanding as of July 31, 2012.

Juniper Networks, Inc.
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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Juniper Networks, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenues:				
Product	\$804,662	\$891,428	\$1,576,535	\$1,768,868
Service	269,097	229,116	529,722	453,288
Total net revenues	1,073,759	1,120,544	2,106,257	2,222,156
Cost of revenues:				
Product	292,589	292,391	573,218	558,137
Service	113,297	105,987	231,111	205,968
Total cost of revenues	405,886	398,378	804,329	764,105
Gross margin	667,873	722,166	1,301,928	1,458,051
Operating expenses:				
Research and development	268,734	257,250	538,336	519,229
Sales and marketing	259,455	246,635	517,174	492,926
General and administrative	48,775	44,260	103,441	89,184
Amortization of purchased intangible assets	1,236	1,332	2,414	2,876
Restructuring	3,161	(916)	5,200	(1,263)
Acquisition-related	(206)	2,685	936	6,786
Total operating expenses	581,155	551,246	1,167,501	1,109,738
Operating income	86,718	170,920	134,427	348,313
Other income (expense), net	2,770	(13,688)	(21,661)	(20,150)
Income before income taxes and noncontrolling interest	89,488	157,232	112,766	328,163
Income tax provision	31,769	41,714	38,777	82,985
Consolidated net income	57,719	115,518	73,989	245,178
Adjust for net loss attributable to noncontrolling interest	—	42	—	132
Net income attributable to Juniper Networks	\$57,719	\$115,560	\$73,989	\$245,310
Net income per share attributable to Juniper Networks common stockholders:				
Basic	\$0.11	\$0.22	\$0.14	\$0.46
Diluted	\$0.11	\$0.21	\$0.14	\$0.45
Shares used in computing net income per share:				
Basic	527,756	532,909	527,989	531,827
Diluted	531,755	546,452	533,753	547,729
Comprehensive income	\$50,069	\$116,584	\$83,217	\$257,331

See accompanying Notes to Condensed Consolidated Financial Statements

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

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,044,310	\$2,910,420
Short-term investments	394,507	641,323
Accounts receivable, net of allowances	406,756	577,386
Deferred tax assets, net	177,412	154,310
Prepaid expenses and other current assets	206,771	156,222
Total current assets	4,229,756	4,439,661
Property and equipment, net	711,953	598,581
Long-term investments	832,966	740,659
Restricted cash and investments	82,002	78,307
Purchased intangible assets, net	143,774	123,114
Goodwill	3,987,707	3,928,144
Other long-term assets	58,123	75,354
Total assets	\$10,046,281	\$9,983,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$199,563	\$324,843
Accrued compensation	245,331	223,018
Accrued warranty	29,776	28,276
Deferred revenue	773,275	712,663
Income taxes payable	24,942	12,545
Other accrued liabilities	180,377	165,358
Total current liabilities	1,453,264	1,466,703
Long-term debt	999,108	999,034
Long-term deferred revenue	219,617	254,364
Long-term income taxes payable	108,178	108,471
Other long-term liabilities	57,191	65,590
Commitments and contingencies		
Juniper Networks stockholders' equity:		
Convertible preferred stock, \$0.00001 par value; 10,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.00001 par value; 1,000,000 shares authorized; 526,122 shares and 526,409 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	5	5
Additional paid-in capital	10,154,457	10,079,169
Accumulated other comprehensive loss	(8,362)	(17,590)
Accumulated deficit	(2,937,653)	(2,972,402)
Total Juniper Networks stockholders' equity	7,208,447	7,089,182
Noncontrolling interest	476	476
Total stockholders' equity	7,208,923	7,089,658
Total liabilities and stockholders' equity	\$10,046,281	\$9,983,820

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	\$73,989	\$245,178
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	89,827	82,649
Non-cash portion of share-based compensation	126,887	106,243
Deferred income taxes	(23,102)	) 8,677
Gain on investments, net	(787)) —
Excess tax benefits from share-based compensation	(6,770)	) (43,331)
Amortization of debt issuance costs	472	273
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	170,694	107,982
Prepaid expenses and other assets	(46,470)	) 6,408
Accounts payable	(137,562)	) (34,051)
Accrued compensation	21,347	(38,756)
Income taxes payable	17,186	51,220
Other accrued liabilities	2,754	19,670
Deferred revenue	25,865	45,795
Net cash provided by operating activities	314,330	557,957
Cash flows from investing activities:		
Purchases of property and equipment	(169,713)	) (115,941)
Purchases of trading investments	(3,120)	) (3,127)
Purchases of available-for-sale investments	(614,842)	) (1,293,670)
Proceeds from sales of available-for-sale investments	399,642	685,258
Proceeds from maturities of available-for-sale investments	371,635	238,000
Payments for business acquisitions, net of cash and cash equivalents acquired	(90,487)	) (31,073)
Proceeds from sales of privately-held investments	19,839	259
Purchases of privately-held investments	(6,123)	) (8,902)
Purchase of other assets	(297)) —
Changes in restricted cash	(211)	) (1,236)
Net cash used in investing activities	(93,677)	) (530,432)
Cash flows from financing activities:		
Proceeds from issuance of common stock	49,797	303,874
Purchases and retirement of common stock	(150,087)	) (355,171)
Payment for capital lease obligation	(1,430)) —
Issuance of long-term debt, net	—	991,556
Change in customer financing arrangements	8,187	15,064
Excess tax benefits from share-based compensation	6,770	43,331
Net cash (used in) provided by financing activities	(86,763)	) 998,654
Net increase in cash and cash equivalents	133,890	1,026,179
Cash and cash equivalents at beginning of period	2,910,420	1,811,887
Cash and cash equivalents at end of period	\$3,044,310	\$2,838,066

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. ("Juniper Networks" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information as well as the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Condensed Consolidated Balance Sheet as of December 31, 2011, is derived from the audited Consolidated Financial Statements for the year ended December 31, 2011. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, or any future period. The information included in this Quarterly Report on Form 10-Q ("Report") should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," "Quantitative and Qualitative Disclosures About Market Risk," and the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Beginning in the first quarter of 2012, the Company aligned its organizational structure to focus on its platform and software strategy, which resulted in two reportable segments organized principally by product families: Platform Systems Division ("PSD") and Software Solutions Division ("SSD"). In fiscal 2011, the Company was organized into two reportable segments, Infrastructure and Service Layer Technology. The Company has reclassified the segment data for the prior periods to conform to the current period's presentation. The segment change did not impact previously reported consolidated net revenues, operating income, net income, and net income per share. See Note 12, Segments, for further discussion of the Company's segment reorganization.

As of June 30, 2012, the Company owned a 60 percent interest in a joint venture with Nokia Siemens Networks B.V. ("NSN"). Given the Company's majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the noncontrolling investor's interests in the net assets and operations of the joint venture. In July 2011, NSN and the Company entered into an agreement to cease operation of and terminate the joint venture. NSN has assumed the activities of the joint venture. The Company is in the process of winding down this joint venture and the termination of this joint venture is not expected to have a material effect on the Company's financial position or results of operations.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, Topic 350 - Intangibles - Goodwill and Other ("ASU 2011-08"), which amends Topic 350 and provides entities an option to perform a qualitative assessment to determine whether further impairment testing on goodwill is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is

more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The Company adopted this standard in the first quarter of 2012. The Company's adoption of the standard during the first quarter of 2012 did not impact its consolidated results of operations or financial condition.

In June 2011, the FASB issued ASU No. 2011-05, Topic 220 - Presentation of Comprehensive Income ("ASU 2011-05"), which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued ASU No. 2011-12, Topic 220 - Comprehensive Income ("ASU 2011-12"), which defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. The Company adopted both standards in the first quarter of 2012.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company's adoption of the standard during the first quarter of 2012 did not impact its consolidated results of operations or financial condition.

In May 2011, the FASB issued ASU No. 2011-04, Topic 820 - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The Company adopted this standard in the first quarter of 2012. The Company's adoption of the standard during the first quarter of 2012 did not impact its consolidated results of operations or financial condition.

Note 3. Business Combinations

The Company's Condensed Consolidated Financial Statements include the operating results of acquired businesses from the date of each acquisition. Pro forma results of operations for these acquisitions have not been presented as the financial impact to the Company's consolidated results of operations, both individually and in aggregate, is not material.

During the six months ended June 30, 2012, the Company completed two acquisitions. The fair values of certain income based taxes and residual goodwill are not yet finalized and subject to change. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments determined to be material will be applied retrospectively to the period of acquisition.

On February 13, 2012, the Company acquired 100% of the equity securities of Mykonos Software, Inc. ("Mykonos"). The acquisition of Mykonos is intended to extend Juniper's security portfolio with an intrusion deception system capable of detecting an attacker before an attack is in process. Goodwill recognized as the result of the acquisition was assigned to the SSD segment.

On March 8, 2012, the Company acquired a source code license, patent joint-ownership, and employees related to the service management layer of BitGravity, Inc. ("BitGravity") Content Delivery Network ("CDN") technology. The transaction complements the Company's Media Flow Solution and content and media delivery strategy, to enable service providers, on-line media companies, and content delivery networks to deliver on-line content more cost-effectively while simultaneously improving the end-user experience. Goodwill recognized as the result of the acquisition was assigned to the SSD segment.

The following table presents the preliminary purchase consideration allocations for these acquisitions, including cash and cash equivalents acquired (in millions):

	Mykonos	BitGravity	Total
Net tangible assets/(liabilities) acquired	\$(0.8	) \$0.1	\$(0.7
Intangible assets acquired	24.3	12.4	36.7
Goodwill	59.1	0.5	59.6
Total	\$82.6	\$13.0	\$95.6

The Company recorded an adjustment of \$0.2 million and recognized \$4.2 million of acquisition-related costs during the three months ended June 30, 2012 and June 30, 2011, respectively, and \$0.9 million and \$9.3 million of acquisition-related costs during the six months ended June 30, 2012 and June 30, 2011, respectively. These acquisition-related charges were expensed in the period incurred and reported in the Company's Condensed Consolidated Statements of Comprehensive Income within cost of revenues and operating expenses.

The goodwill recognized for the acquisitions completed during the six months ended June 30, 2012, was primarily attributable to expected synergies and was not deductible for U.S. federal income tax purposes.

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

Intangible Assets Acquired

The following table presents details of the intangible assets acquired through the business combinations completed during the six months ended June 30, 2012 (in millions, except years):

	Mykonos		BitGravity	
	Estimated Useful Life (In Years)	Amount	Estimated Useful Life (In Years)	Amount
Existing technology	6	\$19.3	3	\$12.4
Trade name and trademarks	7	1.0	—	—
In-process research and development	—	4.0	—	—
Total		\$24.3		\$12.4

Note 4. Cash, Cash Equivalents and Investments

Investments in Available-for-Sale and Trading Securities

The following tables summarize the Company's unrealized gains and losses, based on the specific identification method and fair value, of investments designated as available-for-sale and trading securities, as of June 30, 2012 and December 31, 2011 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of June 30, 2012				
Fixed income securities:				
Asset-backed securities	\$156.6	\$0.2	\$—	\$156.8
Certificates of deposit	27.1	—	—	27.1
Corporate debt securities	532.7	1.5	(0.2)	534.0
Foreign government debt securities	10.0	—	—	10.0
Government-sponsored enterprise obligations	262.3	0.3	—	262.6
Money market funds	1,445.3	—	—	1,445.3
U.S. government securities	419.4	—	(0.1)	419.3
Total fixed income securities	2,853.4	2.0	(0.3)	2,855.1
Publicly-traded equity securities	3.0	—	(0.2)	2.8
Total available-for-sale securities	2,856.4	2.0	(0.5)	2,857.9
Trading securities ^(*)	11.4	—	—	11.4
Total	\$2,867.8	\$2.0	\$(0.5)	\$2,869.3
Reported as:				
Cash equivalents	\$1,641.8	\$—	\$—	\$1,641.8
Short-term investments	394.4	0.3	(0.2)	394.5
Long-term investments	831.6	1.7	(0.3)	833.0
Total	\$2,867.8	\$2.0	\$(0.5)	\$2,869.3

^(*) Balance includes the Company's non-qualified deferred compensation plan assets. For additional information, see Note 11, Employee Benefit Plans, under the section Deferred Compensation Plan.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2011				
Fixed income securities:				
Asset-backed securities	\$124.7	\$0.1	\$(0.1)	) \$124.7
Certificates of deposit	31.8	—	—	) 31.8
Commercial paper	10.0	—	—	) 10.0
Corporate debt securities	508.2	1.0	(0.5)	) 508.7
Government-sponsored enterprise obligations	430.8	0.3	(0.1)	) 431.0
Money market funds	1,316.2	—	—	) 1,316.2
U.S. government securities	301.1	—	(0.1)	) 301.0
Total fixed income securities	2,722.8	1.4	(0.8)	) 2,723.4
Total available-for-sale securities	2,722.8	1.4	(0.8)	) 2,723.4
Trading securities ^(*)	9.3	—	—	) 9.3
Total	\$2,732.1	\$1.4	\$(0.8)	) \$2,732.7
Reported as:				
Cash equivalents	\$1,350.7	\$—	\$—	) \$1,350.7
Short-term investments	640.9	0.4	—	) 641.3
Long-term investments	740.5	1.0	(0.8)	) 740.7
Total	\$2,732.1	\$1.4	\$(0.8)	) \$2,732.7

^(*) Balance includes the Company's non-qualified deferred compensation plan assets. For additional information, see Note 11, Employee Benefit Plans, under the section Deferred Compensation Plan.

The following table presents the maturities of the Company's available-for-sale and trading securities, as of June 30, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	\$2,021.6	\$0.3	\$—	) \$2,021.9
Due between one and five years	831.7	1.7	(0.3)	) 833.1
No contractual maturity	14.5	—	(0.2)	) 14.3
Total	\$2,867.8	\$2.0	\$(0.5)	) \$2,869.3

The following tables present the Company's available-for-sale investments that were in an unrealized loss position as of June 30, 2012 and December 31, 2011 (in millions):

	Less than 12 Months Fair Value	Unrealized Loss	12 Months or Greater Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
As of June 30, 2012						
Corporate debt securities	\$145.6	\$(0.2)) \$—	\$—) \$145.6	\$(0.2)
U.S. government securities	194.1	(0.1)) —	—) 194.1	(0.1)

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Government-sponsored enterprise obligations (*)	31.0	—	—	—	31.0	—
Asset-backed securities (*)	35.9	—	0.9	—	36.8	—
Publicly-traded equity securities	2.8	(0.2)	—	—	2.8	(0.2)
Total	\$409.4	\$(0.5)	\$0.9	\$—	\$410.3	\$(0.5)

(*) Balance includes investments that were in an immaterial unrealized loss position as of June 30, 2012.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

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

The Company had 103 and 135 investments in unrealized loss positions as of June 30, 2012 and December 31, 2011, respectively. The gross unrealized losses related to these investments were primarily due to changes in market interest rates. For the fixed income securities that have unrealized losses, the Company determined that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. As of June 30, 2012 and December 31, 2011, the Company did not consider these investments to be other-than-temporarily impaired. The Company reviews its investments on a regular basis to identify and evaluate investments that have an indication of possible impairment. The Company aggregates its investments by category and length of time the securities have been in a continuous unrealized loss position to facilitate its evaluation.

Restricted Cash and Investments

The Company classifies cash and investments as restricted cash and investments on its Condensed Consolidated Balance Sheets for: (i) amounts held in escrow accounts, as required by certain acquisitions completed between 2005 and 2012; (ii) the India Gratuity Trust and Israel Retirement Trust, which cover statutory severance obligations in the event of termination of any of the Company's India and Israel employees, respectively; and (iii) the Directors and Officers ("D&O") indemnification trust. During the three and six months ended June 30, 2012, the Company distributed approximately \$0.5 million and \$79.5 million of restricted cash, respectively, mainly related to the acquisitions completed during 2012.

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

	As of June 30, 2012	December 31, 2011
Restricted cash:		
Demand deposits	\$0.7	\$0.6
Total restricted cash	0.7	0.6
Restricted investments:		
Corporate debt securities	1.6	1.6
Mutual funds	0.9	1.0
Money market funds	78.8	75.1
Total restricted investments	81.3	77.7

Total restricted cash and investments	\$82.0	\$78.3
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As of June 30, 2012 and December 31, 2011, the unrealized gains and losses related to restricted investments were not material.

Privately-Held Investments

As of June 30, 2012 and December 31, 2011, the carrying values of the Company's privately-held and other equity investments of \$36.0 million and \$51.8 million, respectively, were included in other long-term assets in the Condensed Consolidated

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Balance Sheets. During the three and six months ended June 30, 2012, the Company invested \$5.0 million and \$6.1 million, respectively, in privately-held investments. During the three and six months ended June 30, 2011, the Company invested \$2.9 million and \$8.9 million, respectively, in privately-held and other equity investments.

During the three and six months ended June 30, 2012, the Company recognized a net gain of \$14.8 million and \$0.8 million, respectively, related to the Company's privately-held investments. There were no gains or losses from the Company's privately-held and other equity investments during the three and six months ended June 30, 2011.

Note 5. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Fair Value Measurements at June 30, 2012 Using:			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Assets measured at fair value:				
Available-for-sale debt securities:				
Asset-backed securities	\$—	\$156.8	\$—	\$156.8
Certificate of deposit	—	27.1	—	27.1
Corporate debt securities ⁽¹⁾	—	535.6	—	535.6
Foreign government debt securities	—	10.0	—	10.0
Government-sponsored enterprise obligations	262.6	—	—	262.6
Money market funds ⁽²⁾	1,524.1	—	—	1,524.1
Mutual funds ⁽³⁾	0.9	—	—	0.9
U.S. government securities	206.3	213.0	—	419.3
Total available-for-sale debt securities	1,993.9	942.5	—	2,936.4
Available-for-sale equity securities:				
Publicly-traded equity securities	2.8	—	—	2.8
Total available-for-sale securities	1,996.7	942.5	—	2,939.2
Trading securities:				
Mutual funds ⁽⁴⁾	11.4	—	—	11.4
Derivative assets:				
Foreign exchange contracts	—	0.4	—	0.4
Total assets measured at fair value	\$2,008.1	\$942.9	\$—	\$2,951.0
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	\$—	\$4.0	\$—	\$4.0
Total liabilities measured at fair value	\$—	\$4.0	\$—	\$4.0

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- (1) Balance includes \$1.6 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.
- (2) Balance includes \$78.8 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisitions related escrows.
- (3) Balance relates to the restricted investments measured at fair market value of the Company's India Gratuity Trust.
- (4) Balance relates to investments measured at fair value related to the Company's non-qualified deferred compensation plan assets.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Fair Value Measurements at June 30, 2012 Using:			Total
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	
Total assets measured at fair value, reported as:				
Cash equivalents	\$1,445.3	\$196.5	\$—	\$1,641.8
Short-term investments	191.6	202.9	—	394.5
Long-term investments	291.5	541.5	—	833.0
Restricted investments	79.7	1.6	—	81.3
Prepaid expenses and other current assets	—	0.4	—	0.4
Total assets measured at fair value	\$2,008.1	\$942.9	\$—	\$2,951.0

Total liabilities measured at fair value, reported as:

Other accrued liabilities	\$—	\$4.0	\$—	\$4.0
Total liabilities measured at fair value	\$—	\$4.0	\$—	\$4.0

	Fair Value Measurements at December 31, 2011 Using:			Total
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	
Assets measured at fair value:				
Available-for-sale debt securities:				
Asset-backed securities	\$—	\$124.7	\$—	\$124.7
Certificate of deposit	—	31.8	—	31.8
Commercial paper	—	10.0	—	10.0
Corporate debt securities ⁽¹⁾	—	510.3	—	510.3
Government-sponsored enterprise obligations	314.2	116.8	—	431.0
Money market funds ⁽²⁾	1,391.3	—	—	1,391.3
U.S. government securities	149.3	151.7	—	301.0
Total available-for-sale debt securities	1,854.8	945.3	—	2,800.1
Trading securities:				
Mutual funds ⁽³⁾	10.3	—	—	10.3
Derivative assets:				
Foreign exchange contracts	—	0.4	—	0.4
Total assets measured at fair value	\$1,865.1	\$945.7	\$—	\$2,810.8

Liabilities measured at fair value:

Derivative liabilities:

Foreign exchange contracts	\$—	\$9.6	\$—	\$9.6
Total liabilities measured at fair value	\$—	\$9.6	\$—	\$9.6

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- (1) Balance includes \$1.6 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.
- (2) Balance includes \$75.1 million of restricted investments measured at fair market value, related to the Company's D&O trust and acquisition related escrows.
- (3) Balance includes \$9.3 million of the Company's non-qualified deferred compensation plan assets and \$1.0 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Fair Value Measurements at December 31, 2011			
	Using:			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Total assets measured at fair value, reported as:				
Cash equivalents	\$1,316.2	\$34.5	\$—	\$1,350.7
Short-term investments	168.9	472.4	—	641.3
Long-term investments	303.9	436.8	—	740.7
Restricted investments	76.1	1.6	—	77.7
Prepaid expenses and other current assets	—	0.4	—	0.4
Total assets measured at fair value	\$1,865.1	\$945.7	\$—	\$2,810.8
Total liabilities measured at fair value, reported as:				
Other accrued liabilities	\$—	\$9.6	\$—	\$9.6
Total liabilities measured at fair value	\$—	\$9.6	\$—	\$9.6

The Company's Level 2 fixed income securities are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, or alternative pricing sources with reasonable levels of price transparency which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets. The Company's policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 as of the actual date of the events or change in circumstances that caused the transfer. During the three and six months ended June 30, 2012 and June 30, 2011, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As of June 30, 2012, there were no privately-held investments measured at fair value on a nonrecurring basis. As of December 31, 2011, the carrying value of privately-held investments measured at fair value on a nonrecurring basis was \$0.4 million. These privately-held investments, which are normally carried at cost, are measured at fair value if events and circumstances are identified by the Company during the period that significantly impact the fair value of the investments. The Company measures the fair value of its privately-held investments using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities, cash flow projections, and probability-weighted expected value based on the expected recoverability of the investments.

During the three months ended June 30, 2012, the Company determined there were no other-than-temporary impairments on its privately-held investments. The Company recognized an other-than-temporary impairment loss of \$14.0 million on its privately-held investments during the six months ended June 30, 2012 and classified the investments as Level 3 assets due to the absence of quoted market prices and inherent lack of liquidity. The Company had no other-than-temporary impairment losses against its privately-held investments during the three and six months

ended June 30, 2011.

As of June 30, 2012 and December 31, 2011, the Company had no liabilities measured at fair value on a nonrecurring basis.

Assets and Liabilities Not Measured at Fair Value

The carrying amounts of the Company's accounts receivable, financing receivables, accounts payable, and other accrued liabilities approximate fair value due to their short maturities. The fair value of the Company's long-term debt is disclosed in Note 9, Long-Term Debt and Financing, and was determined using quoted market prices (Level 1).

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

Note 6. Derivative Instruments

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

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

	As of June 30, 2012	December 31, 2011
Cash flow hedges	\$128.8	\$184.3
Non-designated hedges	105.0	122.7
Total	\$233.8	\$307.0

Cash Flow Hedges

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

As of June 30, 2012 and December 31, 2011, the total fair value of the Company's derivative assets recorded in other current assets on the Condensed Consolidated Balance Sheets was \$0.4 million and \$0.4 million, respectively. As of June 30, 2012 and December 31, 2011, the total fair value of the Company's derivative liabilities recorded in other accrued liabilities on the Condensed Consolidated Balance Sheets was \$4.0 million and \$9.6 million, respectively.

During the three and six months ended June 30, 2012, the Company recognized a loss of \$5.2 million and a gain of \$0.8 million, respectively, in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of \$2.0 million and \$5.5 million, respectively, from other comprehensive income to operating expense in the Condensed Consolidated Statements of Comprehensive Income. During the three and six months ended June 30, 2011, the Company recognized a gain of \$1.9 million and \$7.1 million, respectively, in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a gain of \$1.7 million and \$2.2 million, respectively, from other comprehensive income to operating expense in the Condensed Consolidated Statements of Comprehensive Income.

The ineffective portion of the Company's derivative instruments recognized in its Condensed Consolidated Statements of Comprehensive Income was not material during the three and six months ended June 30, 2012 and June 30, 2011.

Non-Designated Hedges

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

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Juniper Networks, Inc.

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

During the three and six months ended June 30, 2012, the Company recognized a net gain of \$0.4 million and \$0.3 million, respectively, within other income (expense), net, on its Condensed Consolidated Statements of Comprehensive Income from non-designated derivative instruments. During the three and six months ended June 30, 2011, the Company recognized a net gain of \$0.4 million and \$0.2 million, respectively, within other income (expense), net, on its Condensed Consolidated Statements of Comprehensive Income from non-designated derivative instruments.

Note 7. Goodwill and Purchased Intangible Assets

Goodwill

The following table presents the goodwill activity allocated to the Company's reportable segments during the six months ended June 30, 2012 (in millions):

	PSD	SSD	Total
Balance as of January 1, 2012	\$1,795.6	\$2,132.5	\$3,928.1
Additions due to business combinations	—	59.6	59.6
Balance as of June 30, 2012	\$1,795.6	\$2,192.1	\$3,987.7

The Company had no adjustments to goodwill during the six months ended June 30, 2012. The additions to goodwill during the six months ended June 30, 2012 were based on preliminary allocations of the purchase prices. There were no impairments to goodwill during the three and six months ended June 30, 2012 and June 30, 2011.

Purchased Intangible Assets

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

	Gross	Accumulated Amortization	Net
As of June 30, 2012			
Intangible assets with finite lives:			
Technologies and patents	\$531.2	\$(418.2)	) \$113.0
Other	92.5	(68.5)	) 24.0
Total intangible assets with finite lives	623.7	(486.7)	) 137.0
IPR&D with indefinite lives	6.8	—	6.8
Total purchased intangible assets	\$630.5	\$(486.7)	) \$143.8
As of December 31, 2011			
Intangible assets with finite lives:			
Technologies and patents	\$499.5	\$(404.2)	) \$95.3
Other	91.5	(66.5)	) 25.0
Total intangible assets with finite lives	591.0	(470.7)	) 120.3
IPR&D with indefinite lives	2.8	—	2.8
Total purchased intangible assets	\$593.8	\$(470.7)	) \$123.1

Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled \$8.8 million and \$6.8 million for the three months ended June 30, 2012 and June 30, 2011, respectively, and \$16.1 million and \$13.5 million for the six months ended June 30, 2012 and June 30, 2011, respectively. There were no impairment

charges with respect to the purchased intangible assets during the three and six months ended June 30, 2012 and June 30, 2011.

The purchased intangible assets balance as of June 30, 2012, includes intangible assets acquired through acquisitions completed during the first six months of 2012. Refer to Note 3, Business Combinations, for further details.

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

As of June 30, 2012, the estimated future amortization expense of purchased intangible assets with finite lives is as follows (in millions):

Years Ending December 31,	Amount
Remainder of 2012	\$ 17.5
2013	34.7
2014	32.8
2015	24.8
2016	11.1
Thereafter	16.1
Total	\$ 137.0

Note 8. Other Financial Information

Inventories, net

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

	As of	
	June 30, 2012	December 31, 2011
Inventories, net		
Production materials	\$87.3	\$52.4
Finished goods	17.5	16.7
Total inventories, net	\$104.8	\$69.1

Warranties

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

	June 30, 2012
Beginning balance	\$28.3
Provisions made during the period, net	16.8
Change in estimate	—
Actual costs incurred during the period	(15.3)
Ending balance	\$29.8

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

Deferred Revenue

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

	As of June 30, 2012	December 31, 2011
Deferred product revenue:		
Undelivered product commitments and other product deferrals	\$281.6	\$288.1
Distributor inventory and other sell-through items	112.6	134.0
Deferred gross product revenue	394.2	422.1
Deferred cost of product revenue	(102.7	) (136.9
Deferred product revenue, net	291.5	285.2
Deferred service revenue	701.4	681.8
Total	\$992.9	\$967.0
Reported as:		
Current	\$773.3	\$712.6
Long-term	219.6	254.4
Total	\$992.9	\$967.0

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

Restructuring Liabilities

During the third quarter of 2011, the Company implemented a restructuring plan (the "2011 Restructuring Plan") in an effort to better align its business operations with the current market and macroeconomic conditions. The 2011 Restructuring Plan consisted of certain workforce reductions, facility closures and to a lesser extent, contract terminations.

During 2009, the Company implemented a restructuring plan (the "2009 Restructuring Plan" and together with the 2011 Restructuring Plan, the "Restructuring Plans") in an effort to better align its business operations with the market and macroeconomic conditions. The 2009 Restructuring Plan included restructuring of certain business functions that resulted in reductions of workforce and facilities. The Company recorded the majority of the restructuring charges associated with this plan during the years ended 2010 and 2009.

The Company recorded net restructuring charges of \$3.2 million and \$5.2 million during the three and six months ended June 30, 2012, respectively, related to the restructuring activities associated with the 2011 Restructuring Plan. During the three and six months ended June 30, 2011, the Company recorded adjustments of \$0.9 million and \$1.3 million, respectively, in connection with the 2009 Restructuring Plan. These amounts are recorded within restructuring in the Condensed Consolidated Statements of Comprehensive Income. As of June 30, 2012, the remaining restructuring liability relates to severance costs under the 2011 Restructuring Plan that are expected to be paid during

the remainder of 2012, as well as facilities-related charges under the Restructuring Plans, which are expected to be completed by February 2015.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Restructuring charges were based on the Company's restructuring plans that were committed by management. Any changes in the estimates of executing the approved plans will be reflected in the Company's results of operations. Restructuring liabilities are reported within other accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets. The following table provides a summary of changes in the Company's restructuring liability during the six months ended June 30, 2012 (in millions):

	December 31, 2011	Charges	Cash payments	Non-cash Settlements and Other Adjustments	June 30, 2012
Facilities	\$1.0	\$1.7	\$(0.4	) \$—	\$2.3
Severance, contractual commitments, and other charges	3.1	3.5	(4.8	) 0.9	2.7
Total	\$4.1	\$5.2	\$(5.2	) \$0.9	\$5.0

Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income	\$2.9	\$2.6	\$5.7	\$5.0
Interest expense	(13.5	) (15.2	) (27.7	) (21.6
Other	13.4	(1.1	) 0.4	(3.5
Other income (expense), net	\$2.8	\$(13.7	) \$(21.6)