JUNIPER NETWORKS INC
Form 10-Q
November 08, 2012

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 September 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)	94089 (Zip code)

(408) 745-2000
(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 x No o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There were approximately 515,574,955 shares of the Company's Common Stock, par value $0.00001, outstanding as of October 31, 2012.

Juniper Networks, Inc.
Table of Contents

Table of Contents

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenues:				
Product	$838,179	$861,935	$2,414,714	$2,630,803
Service	280,132	243,861	809,854	697,149
Total net revenues	1,118,311	1,105,796	3,224,568	3,327,952
Cost of revenues:				
Product	334,645	286,609	907,863	844,746
Service	109,835	107,583	340,946	313,551
Total cost of revenues	444,480	394,192	1,248,809	1,158,297
Gross margin	673,831	711,604	1,975,759	2,169,655
Operating expenses:				
Research and development	288,178	257,096	826,514	776,325
Sales and marketing	261,026	254,933	778,200	747,859
General and administrative	49,442	44,455	152,883	133,639
Amortization of purchased intangible assets	1,148	1,263	3,562	4,139
Restructuring and other charges	31,018	16,813	36,218	15,550
Acquisition-related and other charges	250	18	1,186	6,804
Total operating expenses	631,062	574,578	1,798,563	1,684,316
Operating income	42,769	137,026	177,196	485,339
Other expense, net	(3,956)	(15,957)	(25,617)	(36,107)
Income before income taxes and noncontrolling interest	38,813	121,069	151,579	449,232
Income tax provision	21,999	37,398	60,776	120,383
Consolidated net income	16,814	83,671	90,803	328,849
Adjust for net (income) loss attributable to noncontrolling interest	—	(8)	—	124
Net income attributable to Juniper Networks	$16,814	$83,663	$90,803	$328,973
Net income per share attributable to Juniper Networks common stockholders:				
Basic	$0.03	$0.16	$0.17	$0.62
Diluted	$0.03	$0.16	$0.17	$0.60
Shares used in computing net income per share:				
Basic	521,178	529,286	525,419	530,994
Diluted	524,537	536,583	530,343	544,086
Comprehensive income	$30,403	$67,425	$113,620	$324,756

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$2,707,940	$2,910,420
Short-term investments	439,278	641,323
Accounts receivable, net of allowances	397,082	577,386
Deferred tax assets, net	229,374	154,310
Prepaid expenses and other current assets	168,625	156,222
Total current assets	3,942,299	4,439,661
Property and equipment, net	768,530	598,581
Long-term investments	900,769	740,659
Restricted cash and investments	102,661	78,307
Purchased intangible assets, net	118,655	123,114
Goodwill	3,987,073	3,928,144
Other long-term assets	140,607	75,354
Total assets	$9,960,594	$9,983,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$224,242	$324,843
Accrued compensation	230,102	223,018
Accrued warranty	29,776	28,276
Deferred revenue	771,709	712,663
Income taxes payable	66,996	12,545
Other accrued liabilities	178,976	165,358
Total current liabilities	1,501,801	1,466,703
Long-term debt	999,145	999,034
Long-term deferred revenue	221,217	254,364
Long-term income taxes payable	116,929	108,471
Other long-term liabilities	41,622	65,590
Total liabilities	2,880,714	2,894,162
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; 515,332 shares and 526,409 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	5	5
Additional paid-in capital	10,042,392	10,079,169
Accumulated other comprehensive income (loss)	5,227	(17,590)
Accumulated deficit	(2,968,220)	(2,972,402)
Total Juniper Networks stockholders' equity	7,079,404	7,089,182
Noncontrolling interest	476	476
Total stockholders' equity	7,079,880	7,089,658

Total liabilities and stockholders' equity	$9,960,594	$9,983,820

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	$90,803	$328,849
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Non-cash portion of share-based compensation	186,002	165,236
Depreciation and amortization	137,855	125,986
Restructuring and other charges	88,618	15,550
Deferred income taxes	(75,064)	(6,014)
(Gain) loss on investments, net	(7,810)	982
Excess tax benefits from share-based compensation	(7,184)	(44,524)
Amortization of debt issuance costs	708	509
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	180,368	152,019
Prepaid expenses and other assets	(54,089)	14,103
Accounts payable	(114,020)	(25,962)
Accrued compensation	5,608	(62,625)
Income taxes payable	64,715	70,241
Other accrued liabilities	(24,838)	7,759
Deferred revenue	15,899	1,012
Net cash provided by operating activities	487,571	743,121
Cash flows from investing activities:		
Purchases of property and equipment	(256,753)	(187,886)
Purchases of trading investments	(3,776)	(4,575)
Purchases of available-for-sale investments	(1,009,076)	(1,893,474)
Proceeds from sales of available-for-sale investments	625,119	1,050,936
Proceeds from maturities of available-for-sale investments	431,705	446,150
Payments for business acquisitions, net of cash and cash equivalents acquired	(90,487)	(31,101)
Proceeds from sales of privately-held investments	32,715	2,143
Purchases of privately-held investments	(11,123)	(34,545)
Purchase of licensed software	(65,297)	—
Changes in restricted cash	(20,820)	(1,144)
Net cash used in investing activities	(367,793)	(653,496)
Cash flows from financing activities:		
Proceeds from issuance of common stock	88,225	341,063
Purchases and retirement of common stock	(400,070)	(548,590)
Payment for capital lease obligation	(1,430)	—
Issuance of long-term debt, net	—	991,556
Change in customer financing arrangements	(16,167)	(7,616)
Excess tax benefits from share-based compensation	7,184	44,524
Net cash (used in) provided by financing activities	(322,258)	820,937
Net (decrease) increase in cash and cash equivalents	(202,480)	910,562
Cash and cash equivalents at beginning of period	2,910,420	1,811,887

Cash and cash equivalents at end of period	$2,707,940	$2,722,449

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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 nine months ended September 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. Certain amounts in the prior year Condensed Consolidated Financial Statements have been reclassified to conform to the current year presentation.

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 under different assumptions or conditions.

During the third quarter of 2012, the Company recorded net out of period adjustments reducing income before income taxes and noncontrolling interest by $8.2 million. These net adjustments resulted in increased research and development expense by $18.6 million related to prototype development costs, partially offset by increased net revenues of $6.2 million related to the reversal of certain revenue obligations and reduced cost of revenues by $4.2 million related to inventory purchases. The Company assessed the materiality of these adjustments, using relevant quantitative and qualitative factors, and determined that these adjustments, both individually and in the aggregate, were not material to any previously reported period.

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 13, Segments, for further discussion of the Company's segment reorganization.

As of September 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

There have been no material changes to the Company's significant accounting policies as compared to the accounting policies described in Note 2, Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, Topic 350 - Intangibles - Goodwill and Other ("ASU 2012-02"), which amends Topic 350 to allow an entity to first assess

Table of Contents

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

qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. An entity would not be required to determine the fair value of the indefinite-lived intangible unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company intends to adopt this standard in the first quarter of 2013 and does not expect the adoption will have an impact on our consolidated results of operations or financial condition.

In September 2011, the 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. 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 nine months ended September 30, 2012, the Company completed two acquisitions. During the three months ended September 30, 2012, the Company recorded adjustments of $0.6 million to acquired assets and liabilities related to the acquisitions completed in 2012 and finalized the purchase accounting related to these acquisitions.
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 Networks' 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.'s ("BitGravity") Content Delivery Network ("CDN") technology. Goodwill recognized as the result of the acquisition was assigned to the SSD segment.

Table of Contents

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

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

	Mykonos	BitGravity	Total
Net tangible assets/(liabilities) acquired	$(0.2)	$0.1	$(0.1)
Intangible assets acquired	24.3	12.4	36.7
Goodwill	58.5	0.5	59.0
Total	$82.6	$13.0	$95.6

The Company recorded $0.3 million of acquisition-related costs during the three months ended September 30, 2012 and an immaterial amount of acquisition-related costs during the three months ended September 30, 2011. Acquisition-related costs of $1.2 million and $9.3 million were recorded during the nine months ended September 30, 2012 and September 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 nine months ended September 30, 2012, was primarily attributable to expected synergies and was not deductible for U.S. federal income tax purposes.

Intangible Assets Acquired

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

	2012 Acquisitions	
	Weighted Average Estimated Useful Life (In Years)	Amount
Existing technology	5	$31.7
Trade name and trademarks	7	1.0
In-process research and development ("IPR&D")	—	4.0
Total		$36.7

Table of Contents

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

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 September 30, 2012 and December 31, 2011 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of September 30, 2012				
Fixed income securities:				
Asset-backed securities	$175.4	$0.4	$—	$175.8
Certificates of deposit	26.9	—	—	26.9
Commercial paper	3.0	—	—	3.0
Corporate debt securities	566.2	3.1	—	569.3
Foreign government debt securities	10.0	—	—	10.0
Government-sponsored enterprise obligations	251.2	0.3	—	251.5
Money market funds	1,430.2	—	—	1,430.2
U.S. government securities	462.7	0.2	—	462.9
Total fixed income securities	2,925.6	4.0	—	2,929.6
Publicly-traded equity securities	3.0	0.6	—	3.6
Total available-for-sale securities	2,928.6	4.6	—	2,933.2
Trading securities(*)	12.6	—	—	12.6
Total	$2,941.2	$4.6	$—	$2,945.8
Reported as:				
Cash equivalents	$1,605.7	$—	$—	$1,605.7
Short-term investments	438.2	1.1	—	439.3
Long-term investments	897.3	3.5	—	900.8
Total	$2,941.2	$4.6	$—	$2,945.8

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

Table of Contents

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 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 12, Employee Benefit Plans, under the section Deferred Compensation Plan.

The following table presents the maturities of the Company's fixed income securities as of September 30, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	$2,028.3	$0.5	$—	$2,028.8
Due between one and five years	897.3	3.5	—	900.8
Total	$2,925.6	$4.0	$—	$2,929.6

As of September 30, 2012, the unrealized losses for investments in an unrealized loss position for less than twelve months and more than twelve months were not material. The following tables present the Company's available-for-sale investments that were in an unrealized loss position as of September 30, 2012 and December 31, 2011 (in millions):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of September 30, 2012						
Corporate debt securities	$40.8	$—	$—	$—	$40.8	$—

U.S. government securities	51.0	—	—	—	51.0	—
Government-sponsored enterprise obligations	20.0	—	—	—	20.0	—
Asset-backed securities	16.9	—	1.4	—	18.3	—
Total	$128.7	$—	$1.4	$—	$130.1	$—

Table of Contents

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

The Company had 39 and 135 investments in unrealized loss positions as of September 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 September 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 nine months ended September 30, 2012, the Company distributed approximately $0.1 million and $79.6 million of restricted cash, respectively, mainly related to amounts held in escrow accounts for acquisitions.

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 September 30, 2012	December 31, 2011
Restricted cash:		
Demand deposits	$0.9	$0.6
Total restricted cash	0.9	0.6
Restricted investments:		
Corporate debt securities	1.9	1.6
Mutual funds	1.2	1.0
Money market funds	98.7	75.1

Total restricted investments	101.8	77.7
Total restricted cash and investments	$102.7	$78.3

As of September 30, 2012 and December 31, 2011, the unrealized gains and losses related to restricted investments were not material.

Table of Contents

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

Privately-Held Investments

As of September 30, 2012 and December 31, 2011, the carrying values of the Company’s privately-held and other equity investments of $33.9 million and $51.8 million, respectively, were included in other long-term assets in the Condensed Consolidated Balance Sheets and were accounted for under the cost method. During the three and nine months ended September 30, 2012, the Company invested $5.0 million and $11.1 million, respectively, in privately-held investments. During the three and nine months ended September 30, 2011, the Company invested $25.6 million and $34.5 million, respectively, in privately-held and other equity investments.

During the three and nine months ended September 30, 2012, the Company recognized a net gain of $5.8 million and $6.6 million, respectively, related to the Company's privately-held investments. During the three and nine months ended September 30, 2011, the Company recognized a loss of $1.8 million from the impairment of a privately-held investment partially offset by gains on other privately-held investments.

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

Note 5. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis
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 September 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	$—	$175.8	$—	$175.8
Certificate of deposit	—	26.9	—	26.9
Commercial paper	—	3.0	—	3.0
Corporate debt securities [1]	—	571.2	—	571.2
Foreign government debt securities	—	10.0	—	10.0
Government-sponsored enterprise obligations	241.5	10.0	—	251.5
Money market funds [2]	1,528.9	—	—	1,528.9
Mutual funds [3]	1.2	—	—	1.2
U.S. government securities	260.8	202.1	—	462.9
Total available-for-sale debt securities	2,032.4	999.0	—	3,031.4
Available-for-sale equity securities:				
Publicly-traded equity securities	3.6	—	—	3.6
Total available-for-sale securities	2,036.0	999.0	—	3,035.0
Trading securities:				
Mutual funds [4]	12.6	—	—	12.6
Derivative assets:				
Foreign exchange contracts	—	4.6	—	4.6
Total assets measured at fair value	$2,048.6	$1,003.6	$—	$3,052.2
Liabilities measured at fair value:				
Derivative liabilities:				
Foreign exchange contracts	$—	$0.6	$—	$0.6
Total liabilities measured at fair value	$—	$0.6	$—	$0.6

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(1) Balance includes $1.9 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.
(2) Balance includes $98.7 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.

Table of Contents

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

	Fair Value Measurements at September 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
Total assets measured at fair value, reported as:				
Cash equivalents	$1,430.2	$175.5	$—	$1,605.7
Short-term investments	212.7	226.6	—	439.3
Long-term investments	305.8	595.0	—	900.8
Restricted investments	99.9	1.9	—	101.8
Prepaid expenses and other current assets	—	4.6	—	4.6
Total assets measured at fair value	$2,048.6	$1,003.6	$—	$3,052.2
Total liabilities measured at fair value, reported as:				
Other accrued liabilities	$—	$0.6	$—	$0.6
Total liabilities measured at fair value	$—	$0.6	$—	$0.6

	Fair Value Measurements at December 31, 2011 Using:			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Assets measured at fair value:				
Available-for-sale 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
Mutual funds (3)	1.0	—	—	1.0
U.S. government securities	149.3	151.7	—	301.0
Total available-for-sale debt securities	1,855.8	945.3	—	2,801.1
Trading securities:				
Mutual funds (4)	9.3	—	—	9.3
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

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

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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 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.

	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 nine months ended September 30, 2012 and September 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

Certain of the Company's assets, including intangible assets, goodwill, and privately-held equity investments, are measured at fair value on a nonrecurring basis if impairment is indicated.
Privately-held equity investments, which are normally carried at cost, are measured at fair value due to events and circumstances that the Company identified as significantly impacting the fair value of the investments. The Company

measured the fair value of its privately-held equity investments using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and their capital structure. During the third quarter of 2012, privately-held equity investments with a carrying value of $6.0 million were measured at fair value. As of September 30, 2012, their fair value was zero. As of December 31, 2011, the carrying value of privately-held equity investments was $0.4 million. These investments were classified as Level 3 assets due to the absence of quoted market prices and inherent lack of liquidity.

During the three and nine months ended September 30, 2012, respectively, the Company recognized an other-than-temporary impairment loss of $6.0 million and $20.0 million, respectively, for privately-held equity investments measured at fair. During the three and nine months ended September, 30, 2011, the Company recognized an other-than-temporary impairment loss of $1.8 million for privately-held equity investments at fair.

During the third quarter of 2012, certain purchased intangible assets with a carrying value of 5.4 million were measured at fair value. As of September 30, 2012, their fair was zero. As of December 31, 2011, there were no purchased intangible assets

Table of Contents

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

measured at fair value on a nonrecurring basis. The Company measured the fair value of these assets primarily using discounted cash flow projections. Purchased intangible assets were classified as Level 3 assets, due to the absence of quoted market prices. See Note 7, Goodwill and Purchased Intangibles Assets, for further information.
During the three and nine months ended September 30, 2012, an other-than-temporary impairment charge of $5.4 million related to purchased intangible assets was recognized in cost of revenues. There were no such charges for the three and nine months ended September 30, 2011.
As of September 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 10, Long-Term Debt and Financing, and was determined using quoted market prices (Level 1).

Note 6. Derivative Instruments

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

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

	As of	
	September 30, 2012	December 31, 2011
Cash flow hedges	$130.2	$184.3
Non-designated derivatives	102.8	122.7
Total	$233.0	$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 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 September 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 $4.6 million and $0.4 million, respectively. As of September 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 $0.6 million and $9.6 million, respectively.

During the three and nine months ended September 30, 2012, the Company recognized a gain of $5.7 million and $6.5 million, respectively, in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of $3.2 million and $8.7 million, respectively, from other comprehensive income to operating expense in the Condensed Consolidated Statements of Comprehensive Income. During the three and nine months ended September 30, 2011, the Company recognized a loss of $5.6 million and a gain of $1.5 million, respectively, in accumulated other comprehensive

Table of Contents

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

income for the effective portion of its derivative instruments and reclassified a gain of $1.2 million and $3.4 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 nine months ended September 30, 2012 and September 30, 2011.

Non-Designated Derivatives

The Company also uses foreign currency forward contracts to mitigate variability in gains and losses generated from the re-measurement of certain monetary assets and liabilities denominated in foreign currencies. These derivatives do not qualify for special hedge accounting treatment. These derivatives are carried at fair value with changes recorded in other 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.

During the three and nine months ended September 30, 2012, the Company recognized a net gain of $0.3 million and $0.5 million, respectively, within other expense, net, on its Condensed Consolidated Statements of Comprehensive Income from non-designated derivative instruments. During the three and nine months ended September 30, 2011, the Company recognized a net gain of $0.8 million and $1.0 million, respectively, within other 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 nine months ended September 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
Accumulated adjustment to goodwill	—	(0.6)	(0.6)
Balance as of September 30, 2012	$1,795.6	$2,191.5	$3,987.1

The additions to goodwill were based on the purchase price allocation of the acquisitions completed during the first quarter of 2012. During the nine months ended September 30, 2012, the Company recorded adjustments of $0.6 million to acquired assets and liabilities related to the acquisitions completed in 2012. There were no impairments to goodwill during the three and nine months ended September 30, 2012 and September 30, 2011.

Table of Contents

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

Purchased Intangible Assets

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

	Gross	Accumulated Amortization	Impairments and Other Charges	Net
As of September 30, 2012				
Intangible assets with finite lives:				
Technologies and patents	$538.1	$(426.4)	$(16.1)	$95.6
Other	92.5	(69.4)	—	23.1
Total purchased intangible assets	$630.6	$(495.8)	$(16.1)	$118.7
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

During the third quarter of 2012, $6.8 million of acquired IPR&D accounted for as indefinite lived assets reached technological feasibility and were reclassified as amortizable finite-lived assets. Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled $9.0 million and $6.7 million for the three months ended September 30, 2012 and September 30, 2011, respectively, and $25.1 million and $20.2 million for the nine months ended September 30, 2012 and September 30, 2011, respectively.

In connection with the restructuring plan discussed in Note 9, Restructuring and Other Charges, the Company assessed the impairment and remaining useful life of certain intangible assets and determined intangible assets of $5.4 million were impaired and written-down to their fair value of zero, and other intangible assets of $10.7 million will no longer be utilized. As a result, the Company recorded $16.1 million in charges related to these items during the three and nine months ended September 30, 2012, which are included in cost of revenues in the Condensed Consolidated Statements of Comprehensive Income.

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

As of September 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	$7.2
2013	28.6
2014	28.5
2015	24.9
2016	12.2
Thereafter	17.3
Total	$118.7

Table of Contents

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

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 September 30, 2012	December 31, 2011
Inventories, net		
Production materials	$61.4	$52.4
Finished goods	19.4	16.7
Total inventories, net	$80.8	$69.1

In connection with the restructuring plan discussed in Note 9, Restructuring and Other Charges, the Company recorded a charge during the third quarter of 2012, to cost of revenues of $36.3 million, representing component inventory held in excess of forecasted demand.

Licensed Software

On July 3, 2012, the Company entered into an agreement with Riverbed Technology, Inc. ("Riverbed") to license Riverbed's Application Delivery Controller (“ADC”) software in exchange for the aggregate consideration of $87.9 million, which consist of the following: (1) cash consideration of $75.0 million ($65.0 million paid in the third quarter of 2012 and the remaining $10.0 million payable in the third quarter of 2013); (2) technology integration services with a fair value of $12.6 million; (3) technology partnership in wide area network optimization solutions; and (4) transaction costs of $0.3 million. Contingent consideration of up to $10.0 million has not been recorded but may also be payable to Riverbed if certain third-party approvals of the underlying technology integration services are not obtained.

The aggregate consideration of $87.9 million was allocated to the acquired ADC software of $84.3 million and associated prepaid maintenance and support of $1.0 million. The licensed software acquired was reported within other long-term assets on the Condensed Consolidated Balance Sheets. It will be amortized over its useful life of 6 years beginning in the period in which the product is available for general release to customers, estimated to be in 2013. The amortization expense will be recognized in cost of product revenues.

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

Table of Contents

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

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 during the nine months ended September 30, 2012 were as follows (in millions):

	As of September 30, 2012
Beginning balance	$28.3
Provisions made during the period, net	24.3
Change in estimate	—
Actual costs incurred during the period	(22.8)
Ending balance	$29.8

Deferred Revenue

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

	As of September 30, 2012	December 31, 2011
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$299.4	$288.1
Distributor inventory and other sell-through items	136.9	134.0
Deferred gross product revenue	436.3	422.1
Deferred cost of product revenue	(103.3)	(136.9)
Deferred product revenue, net	333.0	285.2
Deferred service revenue	659.9	681.8
Total	$992.9	$967.0
Reported as:		
Current	$771.7	$712.6
Long-term	221.2	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.

Table of Contents

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

Other Expense, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income	$2.6	$2.2	$8.3	$7.2
Interest expense	(12.8)	(13.9)	(40.6)	(35.6)
Other	6.2	(4.2)	6.7	(7.7)
Other expense, net	$(4.0)	$(15.9)	$(25.6)	$(36.1)

Interest income primarily includes interest earned on the Company’s cash, cash equivalents, and investments. Interest expense primarily includes interest expense from long-term debt and customer financing arrangements. Other income and expense typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items. During the three and nine months ended September 30, 2012, the Company recognized a net gain in Other of $5.8 million and $6.6 million, respectively, related to the Company's privately-held investments. During the three and nine months ended September 30, 2011, Other included legal expenses unrelated to current or recent operations of $1.4 million and $6.8 million, respectively, and net losses on privately-held and other equity investments of $1.1 million and $1.0 million, respectively.

Note 9. Restructuring and Other Charges

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

2012 Restructuring Plan

During the third quarter of 2012, the Company initiated a restructuring plan (the "2012 Restructuring Plan") to bring its cost structure more in line with its long-term financial and strategic model. The 2012 Restructuring Plan consists of workforce reductions, facility consolidations or closures, and supply chain and procurement efficiencies. During the three months ended September 30, 2012, the Company recorded $29.1 million in severance costs and $0.4 million of other charges related to the 2012 Restructuring Plan. These accrued amounts are expected to be paid out through the fourth quarter of 2012. In connection with its restructuring activities, the Company also recorded certain inventory and intangible asset impairment charges totaling $52.4 million to cost of revenues.

2011 and 2009 Restructuring Plans

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 December 31, 2010 and 2009.

The Company recorded net restructuring charges of $1.5 million and $6.7 million during the three and nine months ended September 30, 2012, respectively, for severance and facilities related to the restructuring activities associated with the 2011 Restructuring Plan. During the three and nine months ended September 30, 2011, the Company recorded net restructuring charges of $16.8 million and $15.6 million, respectively, primarily in connection with the 2011 Restructuring Plan. As of

Table of Contents

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

September 30, 2012, the remaining restructuring liability relates to severance costs under the 2011 Restructuring Plan which are expected to be paid during the fourth quarter of 2012, as well as facilities-related charges under the Restructuring Plans, which are expected to be completed by March 2018.

In connection with the restructuring plans discussed above, the Company expects to record aggregate future charges of approximately $20.0 million through 2013, consisting of approximately $4.0 million and $16.0 million related to workforce reductions and facility closures and other charges, respectively.

The following table provides a summary of changes in the restructuring liability related to the Company's plans during the nine months ended September 30, 2012 (in millions):

	December 31, 2011	Charges	Cash Payments	Non-cash Settlements and Other	September 30, 2012
Severance	$3.1	$32.6	$(6.6)	$1.0	$30.1
Facilities	1.0	3.2	(1.5)	—	2.7
Other charges	—	0.4	—	(0.4)	—
Total	$4.1	$36.2	$(8.1)	$0.6	$32.8

Note 10. Long-Term Debt and Financing

Long-Term Debt

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

	As of September 30, 2012	
	Amount	Effective Interest Rates
Senior notes:		
3.10% fixed-rate notes, due 2016 ("2016 Notes")	$300.0	3.12%
4.60% fixed-rate notes, due 2021 ("2021 Notes")	300.0	4.63%
5.95% fixed-rate notes, due 2041 ("2041 Notes")	400.0	6.01%
Total senior notes	1,000.0	
Unaccreted discount	(0.9)	
Total	$999.1	

The effective interest rates for the 2016 Notes, 2021 Notes, and 2041 Notes (collectively the "Notes") include the interest on the Notes, accretion of the discount, and amortization of issuance costs. At September 30, 2012 and December 31, 2011, the estimated fair value of the Notes included in long-term debt was approximately $1,082.4 million and $1,069.8 million, respectively, based on quoted market prices (Level 1).

Customer Financing Arrangements

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

Table of Contents

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

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of $198.8 million and $153.4 million during the three months ended September 30, 2012 and September 30, 2011, respectively, and $482.0 million and $552.4 million during the nine months ended September 30, 2012 and September 30, 2011, respectively.

The Company received cash proceeds from the financing provider of $156.7 million and $142.8 million during the three months ended September 30, 2012 and September 30, 2011, respectively, and $482.5 million and $544.7 million during the nine months ended September 30, 2012 and September 30, 2011, respectively. As of September 30, 2012 and December 31, 2011, the amounts owed by the financing provider were $152.3 million and $162.9 million, respectively, and were recorded in accounts receivable on the Company's Condensed Consolidated Balance Sheets.

The portion of the receivable financed that has not been recognized as revenue is accounted for as a financing arrangement and is included in other accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. As of September 30, 2012 and December 31, 2011, the estimated cash received from the financing provider not recognized as revenue from distributors was $17.8 million and $33.3 million, respectively.

Note 11. Equity

Stock Repurchase Activities

In June 2012, the Company's Board of Directors (the "Board") approved a stock repurchase program (the "2012 Stock Repurchase Program"), which authorized the Company to repurchase up to $1.0 billion of its common stock from time to time in management's discretion. This authorization was in addition to the $1.0 billion approved by the Board in February 2010 (the "2010 Stock Repurchase Program").

During the three and nine months ended September 30, 2012, the Company repurchased and retired approximately 13.9 million and 21.3 million shares of its common stock under its stock repurchase programs at an average price of $18.00 and $18.60 per share for an aggregate purchase price of $250.0 million and $395.6 million, respectively. During the three and nine months ended September 30, 2011, the Company repurchased and retired approximately 8.9 million and 17.5 million shares of its common stock at an average price of $21.47 and $30.93 per share for an aggregate purchase price of $191.0 million and $541.2 million, respectively. As of September 30, 2012, there were $818.2 million of authorized funds remaining under the 2012 Stock Repurchase Program. There were no remaining funds under the 2010 Stock Repurchase Program.

Comprehensive Income Attributable to Juniper Networks

The activity for each component of comprehensive income attributable to Juniper Networks, net of related taxes, was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Consolidated net income	$16.8	$83.7	$90.8	$328.8
Other comprehensive income:				
Change in unrealized gain (loss) on investments	8.4	(8.7)	17.5	(5.8)
Change in foreign currency translation	5.2	(7.5)	5.3	1.7

adjustment				
Total other comprehensive income (loss)	13.6	(16.2)	22.8	(4.1)
Consolidated comprehensive income	30.4	67.5	113.6	324.7
Adjust for comprehensive loss attributable to noncontrolling interest	—	—	—	0.1
Comprehensive income attributable to Juniper Networks	$30.4	$67.5	$113.6	$324.8

23

Table of Contents

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

Note 12. Employee Benefit Plans

Share-Based Compensation Plans

The Company’s share-based compensation plans include the 2006 Equity Incentive Plan (the “2006 Plan”), 2000 Nonstatutory Stock Option Plan (the “2000 Plan”), Amended and Restated 1996 Stock Plan (the “1996 Plan”), as well as various equity incentive plans assumed through acquisitions. Under these plans, the Company has granted (or in the case of acquired plans, assumed) stock options, restricted stock units ("RSUs"), and performance share awards ("PSAs"). In addition, the Company’s 2008 Employee Stock Purchase Plan (the “2008 Purchase Plan”) permits eligible employees to acquire shares of the Company’s common stock at a 15% discount to the offering price (as determined in the 2008 Purchase Plan) through periodic payroll deductions of up to 10% of base compensation, subject to individual purchase limits of 6,000 shares in any twelve-month period or $25,000 worth of stock, determined at the fair market value of the shares at the time the stock purchase option is granted, in one calendar year.

The 2006 Plan was adopted and approved by the Company’s stockholders in May 2006 and had an initial authorized share reserve of 64.5 million shares of common stock plus the addition of any shares subject to options under the 2000 Plan and the 1996 Plan that were outstanding as of May 18, 2006, and that subsequently expire unexercised, up to a maximum of an additional 75.0 million shares. In addition, the Company’s stockholders’ approved amendments to the 2006 Plan that increased the number of shares reserved for issuance under the 2006 Plan, thereby increasing the authorized share reserve by 30.0 million shares in May 2010 and 2011, respectively, and 25.0 million shares in May 2012. As of September 30, 2012, the 2006 Plan had 59.0 million shares subject to currently outstanding equity awards and 50.2 million shares available for future issuance.

In connection with certain past acquisitions, the Company assumed stock options and RSU awards under the stock plans of the acquired companies. The Company exchanged those awards for Juniper Networks' stock options and RSUs. As of September 30, 2012, stock options and RSUs representing approximately 1.2 million shares of common stock were outstanding under awards assumed through the Company's past acquisitions.

Stock Option Activities

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

The following table summarizes the Company’s stock option activity and related information as of and for the nine months ended September 30, 2012 (in millions, except for per share amounts and years):

	Outstanding Options			
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at January 1, 2012	38.6	$23.98		
Options granted	3.1	22.81		
Options canceled	(2.1)	25.61		
Options exercised	(2.8)	10.84		

Options expired	(1.1)	26.97		
Balance at September 30, 2012	35.7	$24.73	3.2	$17.2
As of September 30, 2012:				
Vested or expected-to-vest options	34.6	$24.58	3.2	$17.1
Exercisable options	27.4	$23.59	2.6	$15.4

24

Table of Contents

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

Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $17.11 per share as of September 30, 2012, and the exercise price multiplied by the number of related options. The pre-tax intrinsic value of options exercised, representing the difference between the fair market value of the Company's common stock on the date of the exercise and the exercise price of each option, was $1.6 million and $24.8 million for the three and nine months ended September 30, 2012, respectively. The total fair value of vested options for the three and nine months ended September 30, 2012 was $14.2 million and $57.1 million, respectively.

Restricted Stock Units and Performance Share Awards Activities

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

The following table summarizes the Company's RSU and PSA activity and related information as of and for the nine months ended September 30, 2012 (in millions, except per share amounts and years):

	Outstanding RSUs and PSAs			
	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at January 1, 2012	19.6	$30.27		
RSUs granted	7.8	20.83		
RSUs assumed	0.2	22.47		
PSAs granted (*)	2.2	23.07		
RSUs vested	(2.2)	28.10		
PSAs vested	(1.9)	18.02		
RSUs canceled	(1.5)	28.66		
PSAs canceled	(0.9)	32.50		
Balance at September 30, 2012	23.3	$27.77	1.4	$399.0
As of September 30, 2012:				
Vested and expected-to-vest RSUs and PSAs	18.8	$27.56	1.3	$322.4

(*) The number of shares subject to PSAs granted represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term. The aggregate number of shares subject to these PSAs that would be issued if performance goals determined by the Compensation Committee are achieved at target is 0.9 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 2.2 million shares.

Table of Contents

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

Shares Available for Grant

The following table presents the stock grant activity and the total number of shares available for grant under the 2006 Plan as of September 30, 2012 (in millions):

	Number of Shares
Balance at January 1, 2012	41.1
Additional shares authorized for issuance	25.0
RSUs and PSAs granted [1]	(21.0)
Options granted	(3.1)
RSUs and PSAs canceled [1]	5.0
Options canceled [2]	2.1
Options expired [2]	1.1
Balance at September 30, 2012	50.2

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

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

Employee Stock Purchase Plan

The Company's 2008 Purchase Plan is implemented in a series of offering periods, each six months in duration, or a shorter period as determined by the Board. Under the 2008 Purchase Plan, employees purchased approximately 1.9 million and 3.6 million shares at an average per share price of $14.90 and $16.26 for the three and nine months ended September 30, 2012, respectively, and 1.4 million and 2.4 million shares at an average price of $19.88 and $21.53 for the three and nine months ended September 30, 2011, respectively.

As of September 30, 2012, approximately 9.5 million shares have been issued and 9.5 million shares remain available for future issuance under the 2008 Purchase Plan.

Common Stock Reserved for Future Issuance

As of September 30, 2012, the Company had reserved an aggregate of approximately 118.7 million shares of common stock for future issuance under its equity incentive plans and the 2008 Purchase Plan.

Share-Based Compensation Expense

The Company determines the fair value of its stock options utilizing the Black-Scholes-Merton ("BSM") option-pricing model, which incorporates various assumptions including volatility, risk-free interest rate, expected life, and dividend yield. The expected volatility is based on the implied volatility of market-traded options on the Company's common stock, adjusted for other relevant factors including historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The expected life of a stock option award is based on historical experience and on the terms and conditions of the stock awards granted to employees, as well as the potential effect from stock options that had not been exercised at the time. The Company determines the fair value of its RSUs and PSAs based upon the fair market value of the shares of the Company's common stock at the date of grant.

Table of Contents

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock Options:				
Volatility	46%	46%	46%	41%
Risk-free interest rate	0.7%	0.8%	0.8%	1.7%
Expected life (years)	4.2	4.1	4.2	4.3
Dividend yield	—	—	—	—
Weighted-average fair value per share	$6.89	$8.34	$8.46	$15.12
Employee Stock Purchase Plan:				
Volatility	42%	45%	47%	40%
Risk-free interest rate	0.1%	0.2%	0.1%	0.2%
Expected life (years)	0.5	0.5	0.5	0.5
Dividend yield	—	—	—	—
Weighted-average fair value per share	$4.77	$6.37	$5.53	$7.50

The Company expenses the cost of its stock options on a straight-line basis over the vesting period and expenses the cost of its RSUs ratably over the vesting period. With respect to PSAs, for the portion of the award attributable to each performance year, the Company recognizes PSA expense ratably over the remaining vesting period starting in the period in which the annual performance targets are set for each such performance year.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of revenues - Product	$1.2	$1.2	$3.5	$3.4
Cost of revenues - Service	3.8	3.8	13.2	12.1
Research and development	26.0	26.5	80.3	75.4
Sales and marketing	21.4	20.6	64.3	53.0
General and administrative	6.7	8.4	24.7	25.7
Total	$59.1	$60.5	$186.0	$169.6

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock options	$14.3	$18.8	$47.1	$58.4
RSUs and PSAs	39.7	35.6	122.3	93.6
Assumed RSUs	0.4	—	1.0	—
Employee stock purchase plan	4.7	4.6	15.6	13.2
Other acquisition-related compensation	—	1.5	—	4.4
Total	$59.1	$60.5	$186.0	$169.6

Table of Contents

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

As of September 30, 2012, approximately $81.3 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted-average period of approximately 2.3 years and approximately $269.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs and PSAs will be recognized over a weighted-average period of approximately 2.0 years.

401(k) Plan

The Company maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "IRC"). Employees meeting the eligibility requirements, as defined under the IRC, may contribute up to the statutory limits each year. The Company has matched employee contributions since January 1, 2001, currently matching 25% of all eligible employee contributions. All matching contributions vest immediately. The Company’s matching contributions to the plan totaled $4.8 million and $16.8 million for the three and nine months ended September 30, 2012, respectively, and $3.9 million and $13.7 million for the three and nine months ended September 30, 2011, respectively.

Deferred Compensation Plan

The Company’s non-qualified deferred compensation (“NQDC”) plan is an unfunded and unsecured deferred compensation arrangement. Under the NQDC plan, officers and other senior employees may elect to defer a portion of their compensation and contribute such amounts to one or more investment funds. The NQDC plan assets are included within short-term investments, and offsetting obligations are included within accrued compensation in the Condensed Consolidated Balance Sheets. The investments are considered trading securities and are reported at fair value. The realized and unrealized holding gains and losses related to these investments are recorded in other expense, net, and the offsetting compensation expense is recorded as operating expenses in the Condensed Consolidated Statements of Comprehensive Income. The deferred compensation liability under the NQDC plan was approximately $12.6 million and $9.3 million as of September 30, 2012 and December 31, 2011, respectively. See Note 4, Cash, Cash Equivalents, and Investments, for additional information regarding the Company's NQDC plan.

Note 13. Segments

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

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

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

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

Table of Contents

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenues:				
PSD	$892.9	$879.8	$2,588.6	$2,695.3
SSD	225.4	226.0	636.0	632.7
Total net revenues	1,118.3	1,105.8	3,224.6	3,328.0
Segment contribution margin:				
PSD	356.1	381.8	1,011.9	1,214.3
SSD	99.8	94.5	256.2	250.3
Total segment contribution margin	455.9	476.3	1,268.1	1,464.6
Corporate unallocated expenses (1)	(266.5)	(255.1)	(794.2)	(755.4)
Amortization of purchased intangible assets (2)	(9.0)	(6.7)	(25.1)	(20.2)
Share-based compensation expense	(59.1)	(60.5)	(186.0)	(169.6)
Share-based payroll tax expense	(0.1)	(0.2)	(1.1)	(9.2)
Restructuring and other charges (3)	(83.4)	(16.8)	(88.6)	(15.6)
Acquisition-related and other charges (4)	(0.3)	—	(1.2)	(9.3)
Other	5.3	—	5.3	—
Total operating income	42.8	137.0	177.2	485.3
Other expense, net	(4.0)	(15.9)	(25.6)	(36.1)
Income before income taxes and noncontrolling interest	$38.8	$121.1	$151.6	$449.2

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

Depreciation expense allocated to the PSD segment was $30.6 million and $88.2 million in the three and nine months ended September 30, 2012, respectively, and $28.3 million and $80.8 million in the three and nine months ended September 30, 2011, respectively. Depreciation expense allocated to the SSD segment was $8.5 million and $24.6 million in the three and nine months ended September 30, 2012, respectively, and $8.4 million and $25.0 million in the three and nine months ended September 30, 2011, respectively.

Table of Contents

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Americas:				
United States	$507.6	$502.3	$1,513.6	$1,552.3
Other	52.7	54.2	165.3	164.6
Total Americas	560.3	556.5	1,678.9	1,716.9
Europe, Middle East, and Africa	321.3	311.3	927.7	940.2
Asia Pacific	236.7	238.0	618.0	670.9
Total	$1,118.3	$1,105.8	$3,224.6	$3,328.0

During the three months ended September 30, 2012, no customers accounted for greater than 10% of net revenues. During the nine months ended September 30, 2012, Verizon Communications, Inc. accounted for 12.0% of net revenues. During the three and nine months ended September 30, 2011, no single customer accounted for 10% or more of net revenues.

The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of September 30, 2012 and December 31, 2011, were attributable to U.S. operations. As of September 30, 2012 and December 31, 2011, gross property and equipment held in the U.S., as a percentage of total property and equipment, was approximately 82% and 80%, respectively . Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the CODM does not review asset information on a segment basis.

Note 14. Income Taxes

The Company recorded a tax provision of $22.0 million and $60.8 million, or effective tax rates of 56.7% and 40.1% for the three and nine months ended September 30, 2012, respectively. The Company recorded a tax provision of $37.4 million and $120.4 million for the three and nine months ended September 30, 2011, or effective tax rates of 30.9% and 26.8%, respectively.

The effective tax rates for the three and nine months ended September 30, 2012, differ from the federal statutory rate of 35% primarily due to the effect of changes in foreign earnings coupled with the impact of the restructuring charges in the period. The effective rates for the periods do not reflect the benefit of the federal R&D credit, which expired on December 31, 2011.

The effective tax rates for the three and nine months ended September 30, 2011, differ from the federal statutory rate of 35% primarily due to the federal R&D credit and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates.

The gross unrecognized tax benefits increased by approximately $9.6 million for the nine months ended September 30, 2012. In the same period, a benefit primarily related to expiration of statutes of limitation of approximately $3.3 million, including interest and penalties, impacted the effective tax rate.

The Company is currently under examination by the Internal Revenue Service ("IRS") for the 2004 through 2009 tax years. The Company is also subject to two separate ongoing examinations by the India tax authorities for the 2004 tax year and 2004 through 2008 tax years, respectively. Additionally, the Company has not reached a final resolution with the IRS on an adjustment it proposed for the 1999 and 2000 tax years. The Company is not aware of any other examination by taxing authorities in any other major jurisdictions in which it files income tax returns as of September 30, 2012.

In 2011, as part of the 2005 and 2006 IRS audit, the Company received a proposed adjustment related to its intercompany R&D cost sharing arrangement for the license of intangibles acquired in 2005. In 2009, as part of the 2004 IRS audit, the Company received a similar proposed adjustment related to the license of intangibles acquired in 2004.

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

Table of Contents

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

and interest in 2009 related to this matter. The Company understands that the India tax authorities may issue an initial assessment that is substantially higher than this amount. As a result, in accordance with the administrative and 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 procedures relative to the matters referenced above. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to these proposed adjustments and the ultimate resolution of these matters is unlikely to have a material effect on its consolidated financial condition or results of operations; however there is still a possibility that an adverse outcome of these matters could have a material effect on its consolidated financial condition and results of operations. For more information, see Note 16, Commitments and Contingencies, under the heading “IRS Notices of Proposed Adjustments.”

The Company engages in continuous discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that the balance of the gross unrecognized tax benefits will decrease by approximately $2.5 million within the next twelve months due to lapses of applicable statutes of limitation in multiple jurisdictions that the Company operated in. However, at this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to the remaining unrecognized tax liabilities due to uncertainties in the timing of tax audit outcomes.

Note 15. 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,	
	2012	2011	2012	2011
Numerator:				
Net income attributable to Juniper Networks	$16.8	$83.7	$90.8	$329.0
Denominator:				
Weighted-average shares used to compute basic net income per share	521.2	529.3	525.4	531.0
Dilutive effect of employee stock awards	3.3	7.3	4.9	13.1
Weighted-average shares used to compute diluted net income per share	524.5	536.6	530.3	544.1
Net income per share attributable to Juniper Networks common stockholders:				
Basic	$0.03	$0.16	$0.17	$0.62
Diluted	$0.03	$0.16	$0.17	$0.60

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 potentially dilutive common shares outstanding during the period. Dilutive potential common shares consist of common shares issuable upon exercise of stock options, employee stock purchase plan issuances, vesting of RSUs, and vesting of PSAs.

The Company excludes both outstanding stock options with exercise prices that are greater than the average market price and RSUs with grant date fair market value that are greater than the average market price from the calculation of diluted net income per share because their effect would be anti-dilutive. The Company includes the common shares underlying PSAs in the calculation of diluted net income per share when they become contingently issuable and excludes such shares when they are not contingently issuable. Potentially dilutive common shares of approximately 36.8 million and 33.0 million shares for the three and nine months ended September 30, 2012, respectively, and 29.8 million and 12.8 million shares for the three and nine months ended September 30, 2011, respectively, were outstanding but were not included in the computation of diluted net income per share.

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

Note 16. Commitments and Contingencies

Commitments

The following table summarizes the Company's future principal contractual obligations as of September 30, 2012 (in millions):

	Total	Remainder of 2012	2013	2014	2015	2016	Thereafter	Other
Operating leases	$280.6	$15.9	$52.1	$45.6	$37.2	$28.6	$101.2	$—
Purchase commitments	105.0	105.0	—	—	—	—	—	—
Tax liabilities	116.9	—	—	—	—	—	—	116.9
Long-term debt	1,000.0	—	—	—	—	300.0	700.0	—
Interest payment on long-term debt	826.2	—	46.9	46.9	46.9	41.9	643.6	—
Other contractual obligations	143.3	131.2	6.3	3.4	2.4	—	—	—
Total	$2,472.0	$252.1	$105.3	$95.9	$86.5	$370.5	$1,444.8	$116.9

Operating Leases

The Company leases certain facilities and equipment under operating leases that expire at various times, the longest of which expires on November 30, 2022. Future minimum payments for non-cancelable operating leases totaled $280.6 million as of September 30, 2012. Rent expense was $15.7 million and $47.2 million for the three and nine months ended September 30, 2012, respectively, and $17.0 million and $49.6 million for the three and nine months ended September 30, 2011, respectively.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by the Company place non-cancelable, non-returnable ("NCNR") orders for components based on the Company's build forecasts. As of September 30, 2012, there were NCNR component orders placed by the contract manufacturers with a value of $105.0 million. The contract manufacturers use the components to build products based on the Company's forecasts and customer purchase orders received by the Company. Generally, the Company does not own the components and title to the products transfers from the contract manufacturers to the Company and immediately to the Company's customers upon delivery at a designated shipment location. If the components remain unused or the products remain unsold for specified periods, the Company may incur carrying charges or obsolete materials charges for components that the contract manufacturers purchased to build products to meet the Company's forecast or customer orders. As of September 30, 2012, the Company had accrued $18.5 million based on its estimate of such charges.

Tax Liabilities

As of September 30, 2012, the Company had $116.9 million included in long-term liabilities 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 the $116.9 million in liability due to uncertainties in the timing of tax audit outcomes.

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

As of September 30, 2012, the Company held long-term debt consisting of senior notes with a carrying value of $999.1 million. Of these Notes, $300.0 million will mature in 2016 and bears interest at a fixed rate of 3.10%, $300.0 million will mature in 2021 and bears interest at a fixed rate of 4.60%, 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 10, Long-Term Debt and Financing, for further discussion of the Company's long-term debt.

Table of Contents

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

Other Contractual Obligations

As of September 30, 2012, other contractual obligations primarily consisted of $48.7 million in indemnity-related and service related escrows, required by certain asset purchases and acquisitions completed in 2005, 2010 and 2012, $81.1 million in campus build-out obligations, and other miscellaneous commitments.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company’s products infringe the intellectual property rights of a third-party. The Company also has financial guarantees consisting of guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, customs and duties guarantees, and standby letters of credit for certain lease facilities. As of September 30, 2012 and December 31, 2011, the Company had $19.5 million and $19.9 million, respectively, in bank guarantees and standby letters of credit related to these financial guarantees.

Legal Proceedings

The Company is involved in disputes, litigation, and other legal actions, including, but not limited to, the matters described below. The Company is aggressively defending its current litigation matters, and while there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that there are no existing claims or proceedings that are likely to have a material adverse effect on its financial position. There are many uncertainties associated with any litigation, and these actions 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. Unless otherwise noted below, during the period presented, we have not: recorded any accrual for loss contingencies associated with such legal proceedings; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable.

2011 Federal Securities Class Action

On August 15, 2011, a purported securities class action lawsuit, captioned City of Royal Oak Retirement System v. Juniper Networks, Inc., et al., Case No. 11-cv-04003-LHK, was filed in the United States District Court for the Northern District of California naming the Company and certain of its officers and directors as defendants. The complaint alleges that the defendants made false and misleading statements regarding the Company's business and prospects. Plaintiffs seek an unspecified amount of monetary damages on behalf of the purported class. On January 9, 2012 the Court appointed City of Omaha Police and Fire Retirement System and City of Bristol Pension Fund as lead plaintiffs. Lead plaintiffs allege that defendants made false and misleading statements about the Company's business and future prospects, and failed to adequately disclose the impact of certain changes in accounting rules. Lead plaintiffs purport to assert claims for violations of Sections 10(b), 20(a) and 20A of the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf of those who purchased or otherwise acquired Juniper Networks' common stock between July 20, 2010 and July 26, 2011, inclusive. On March 14, 2012, Defendants filed motions to dismiss lead plaintiffs' amended complaint. On July 23, 2012, the Court issued an order dismissing the action and giving lead plaintiffs leave to file an amended complaint. Lead plaintiffs filed their second amended complaint on August 20, 2012. Defendants filed a motion to dismiss the second amended complaint on September 17, 2012, and lead plaintiffs filed their opposition on October 22, 2012. Defendants' reply brief is due November 8, 2012. A hearing on the motion to dismiss is scheduled for January 31, 2013.

2011 California State Derivative Lawsuits

Between August 22 and September 9, 2011, four purported shareholder derivative actions were filed in the Superior Court of the State of California, County of Santa Clara, naming certain of the Company's officers and directors as defendants. The Company is named only as a nominal defendant in the actions. The actions were consolidated as In re Juniper Networks, Inc. Shareholder Litigation, Case No. 1-11-CV-207701 (Lead Case), by order dated September 12, 2011. The complaints are

Table of Contents

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

generally based upon the disclosures and alleged omissions challenged in the securities class action. The complaints purport to assert claims against the defendants for breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The complaints seek, among other relief, damages in an unspecified amount, restitution, and attorneys' fees and costs. On March 8, 2012, the Company filed a motion to stay the action until resolution of the federal securities class action discussed above, and also filed a demurrer seeking to dismiss the action for the reason that plaintiffs lack standing. The plaintiffs filed oppositions to both motions on April 5, 2012. Defendants filed reply briefs on May 7, 2012. At a hearing on July 27, 2012, the Court ordered that the actions be stayed until such time as the federal court issues an order denying a motion to dismiss in the securities class action, City of Omaha Police and Fire Retirement System v. Juniper Networks, Inc. et al., Case No. CV-11-4003-LHK. The Court deferred deciding the demurrer pending the stay.

2011 Federal Derivative Lawsuit

On September 27, 2011 and December 28, 2011, two purported shareholder derivative actions, captioned Ratinova v. Johnson, et al., Case No. 11-cv-04792 and Lisa E. Coppola, ERA v. Johnson, et al., Case No. 11-cv-06667, respectively, were filed in the United States District Court for the Northern District of California naming certain of the Company's officers and directors as defendants. The Company is named only as a nominal defendant in the action. Like the state derivative actions, the federal derivative lawsuits are generally based upon the disclosures and alleged omissions challenged in the securities class action. The complaints purport to assert claims against the defendants for breach of fiduciary duties and unjust enrichment. The complaints seek, among other relief, damages in an unspecified amount, restitution, and attorneys' fees and costs. By order dated January 30, 2012, the Court consolidated the actions as In re Juniper Networks, Inc. Shareholder Derivative Litigation, Master File No. 11-cv-04792-LHK. On February 3, 2012, the parties filed a stipulation in which the parties requested that the Court stay the action until such time as the Court entered an order denying a motion to dismiss in the related federal securities class action described above. On February 6, 2012, the Court granted the parties' stipulation.

IRS Notices of Proposed Adjustments

In 2011, as a result of its audit of the Company's U.S. federal income tax returns for the 2005 and 2006 fiscal years, the IRS issued a Preliminary Notice of Deficiency (“PNOD”) regarding the Company's transfer pricing transactions under its intercompany R&D cost sharing arrangement related to the license of intangibles acquired in 2005. The asserted changes would affect the Company's income tax liabilities for tax years subsequent to 2004. Because of the PNOD, the estimated incremental tax liabilities for all relative tax years would be approximately $92 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS.

In 2009, the Company received a PNOD from the IRS claiming that the Company owes additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. The asserted changes to the Company's 2004 tax year would affect the Company's income tax liabilities in tax years subsequent to 2003. In addition, the Company has not reached a final resolution with the IRS on an adjustment the IRS proposed for the 1999 and 2000 tax years. Because of the PNOD, the estimated incremental tax liability would be approximately $807 million, excluding interest and penalties. The Company has filed a protest to the PNOD, which is under review by the Appeals Division of the IRS.

The Company strongly believes the IRS' position with regard to transfer pricing transactions for the Company's 2004 through 2006 fiscal years are inconsistent with applicable tax laws, judicial precedent and existing Treasury regulations, and that the Company's previously reported income tax provisions for the years in question are appropriate. However, there can be no assurance that these matters will be resolved in the Company's favor. Regardless of whether these matters are resolved in the Company's favor, the final resolution of these matters could be expensive and time-consuming to defend and/or settle. While the Company believes it has provided adequately for these matters, there is still a possibility that an adverse outcome from these matters could have a material effect on its results of operations and financial condition.

In September 2008, as part of its ongoing audit of the U.S. federal income tax return for the 2004 fiscal year, the IRS issued a Notice of Proposed Adjustment (“NOPA”) regarding the Company's business credits. The Company believes that it has adequately provided for any reasonable foreseeable outcome related to this proposed adjustment.

The Company is also under routine examination by certain state and non-U.S. tax authorities. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these audits.

Table of Contents

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

Note 17. Subsequent Events

Stock Repurchases

Subsequent to September 30, 2012, through the filing of this Report, the Company repurchased 9.9 million shares of its common stock, for $168.5 million at an average purchase price of $17.03 per share, under the 2012 Stock Repurchase Program. Repurchases of 8.8 million shares were settled prior to the filing of this Report and the remaining shares will be settled after the filing date. Under the 2012 Stock Repurchase Program, the Company has $649.7 million authorized funds remaining as of the filing date. Purchases under the Company's stock repurchase program are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q (“Report”), including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and the future results of Juniper Networks, Inc. (“we,” “us,” "Juniper Networks," or the “Company”) that are based on our current expectations, estimates, forecasts, and projections about our business, our results of operations, the industry in which we operate, and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “would,” “could,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expres intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled “Risk Factors” in Item 1A of Part II and elsewhere, and in other reports we file with the U.S. Securities and Exchange Commission ("SEC"), specifically our most recent Annual Report on Form 10-K. While forward-looking statements are based on reasonable expectations of our management at the time that they are made, given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. 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 (“U.S. GAAP”). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors, including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives.

To aid in understanding our operating results for the periods covered by this Report, we have provided a 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 consolidated financial condition and results of operations in this Item 2, our “Risk Factors” section included in Item 1A of Part II, and our unaudited Condensed Consolidated Financial Statements and Notes included in Item 1 of Part I of this 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, 2011.

Business and Market Environment

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

We do business in three geographic regions: Americas, Europe, Middle East and Africa (“EMEA”), and Asia Pacific (“APAC”). Beginning in the first quarter of 2012, we aligned our organizational structure to focus on our platform and software strategy, which resulted in two business segments: Platform Systems Division ("PSD") and Software Solutions Division ("SSD"). Our PSD segment primarily offers scalable routing and switching products that are used in service provider, enterprise, and public sector networks to control and direct network traffic between data centers, core, edge, aggregation, campus, wireless local area network ("WLAN"), branch, and customer premise equipment. Our SSD segment offers solutions that address a broad array of our customers' priorities, from protecting the users, applications, and data on the network to providing network services across a distributed infrastructure. Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to our customers.

We remain focused on a common vision for the new network and we believe that the organizational structure we have in place will effectively drive our innovative portfolio and support our customers' next-generation network requirements. Together, our high-performance product and service offerings help our customers to convert legacy networks that provide commoditized services into more valuable assets that provide differentiation, value, increased performance, reliability, and security to end-users. We remain dedicated to uncovering new ideas and innovations that will serve the exponentially increasing demands of

Table of Contents

the networked world, and we will endeavor to continue to build solutions that center on simplification, automation, and open innovation.
In the third quarter of 2012, we continued to experience an uncertain global macroeconomic environment in which our customers exercised care and conservatism in their investment prioritization and project deployments. We expect that our customers will continue to remain cautious with their capital spending in the near term. Nevertheless, we are focused on executing our strategy to address the market trends of mobile Internet and cloud computing and we continue to see positive long-term fundamentals for high-performance networking.

In the third quarter of 2012, we saw increased momentum with our new product offerings, including new customer adoption of our QFabric (“QFX”) solutions, T4000 Core Routers, PTX Series Packet Transport switches, and ACX Series Universal Access Routers, which began shipping in the third quarter of 2012. We also continued to take market share with new customer wins with the EX Series, MX Series, SRX and mobile security solutions. Additionally, we announced industry performance-leading MX2020 and MX2010 3D Universal Edge Routers and new JunosV App Engine, which enable service providers to transform the network edge into a powerful platform for rapid service deployment. We also launched the Junos Content Encore with MX Application Services Modular Line Card, which enables the delivery of premium content services over broadband connections across multiple device types. Furthermore, we announced a technology partnership in wide area network ("WAN") optimization, application delivery, and mobility with Riverbed Technology, which will enable more secure, efficient delivery of applications across devices, networks and clouds.

During the third quarter of 2012, we initiated a restructuring plan (the "2012 Restructuring Plan") to bring our cost structure more in line with our long-term financial and strategic model. The 2012 Restructuring Plan consists of workforce reductions, facility consolidations or closures, and supply chain and procurement efficiencies. In connection with the 2012 Restructuring Plan, we recorded operating expenses of $31.0 million for workforce reductions, facility consolidations or closures, and other charges during the third quarter of 2012. We also recorded certain inventory charges of $36.3 million and intangible asset impairment charges of $16.1 million to cost of revenues. We expect to incur charges related to the 2012 Restructuring Plan through the end of fiscal 2013. We continue to anticipate that our restructuring and cost reduction activities will result in approximately $150.0 million in cost reduction savings, with the majority in operating expenses, and to a lesser extent, in both product and service cost of revenues for the full year 2013, in comparison to our the current full year levels. See Note 9, Restructuring and Other Charges, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, for further discussion of our restructuring activities.

Financial Results Overview

Our financial highlights for the three and nine months ended September 30, 2012 and September 30, 2011 were as follows (in millions, except per share amounts and percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012	2011	$ Change	%Change	2012	2011	$ Change	%Change
Net revenues	$1,118.3	$1,105.8	$12.5	1 %	$3,224.6	$3,328.0	$(103.4)	