

JUNIPER NETWORKS INC

Form 10-Q

November 05, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

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

*(IRS Employer
Identification No.)*

**1194 North Mathilda Avenue
Sunnyvale, California 94089**

*(Address of principal executive offices,
including zip code)*

(408) 745-2000

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

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting
Company ☐

*(Do not check if a smaller
reporting company)*

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

There were approximately 523,202,000 shares of the Company's Common Stock, par value \$0.00001, outstanding as of October 29, 2010.

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

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net revenues: | | | | |
| Product | \$ 801,183 | \$ 634,074 | \$ 2,296,442 | \$ 1,828,896 |
| Service | 211,224 | 189,838 | 606,883 | 545,562 |
| Total net revenues | 1,012,407 | 823,912 | 2,903,325 | 2,374,458 |
| Cost of revenues: | | | | |
| Product | 247,033 | 206,329 | 701,166 | 606,966 |
| Service | 87,587 | 74,300 | 252,413 | 215,535 |
| Total cost of revenues | 334,620 | 280,629 | 953,579 | 822,501 |
| Gross margin | 677,787 | 543,283 | 1,949,746 | 1,551,957 |
| Operating expenses: | | | | |
| Research and development | 231,151 | 185,204 | 662,913 | 554,498 |
| Sales and marketing | 204,704 | 183,424 | 599,382 | 547,843 |
| General and administrative | 43,773 | 39,877 | 132,791 | 118,263 |
| Amortization of purchased intangible assets | 917 | 1,330 | 3,258 | 9,259 |
| Restructuring charges | 181 | 4,493 | 8,550 | 16,251 |
| Acquisition-related and other charges | 1,525 | 1,000 | 2,066 | 1,000 |
| Total operating expenses | 482,251 | 415,328 | 1,408,960 | 1,247,114 |
| Operating income | 195,536 | 127,955 | 540,786 | 304,843 |
| Interest and other income, net | 205 | 1,733 | 2,497 | 6,581 |
| Gain (loss) on equity investments | | | 3,232 | (3,311) |
| Income before income taxes and noncontrolling interest | 195,741 | 129,688 | 546,515 | 308,113 |
| Income tax provision | 61,404 | 45,902 | 117,225 | 214,018 |
| Consolidated net income | 134,337 | 83,786 | 429,290 | 94,095 |
| Adjust for net loss (income) attributable to noncontrolling interest | 206 | | (1,121) | |
| Net income attributable to Juniper Networks | \$ 134,543 | \$ 83,786 | \$ 428,169 | \$ 94,095 |

Net income per share attributable to Juniper Networks common stockholders:

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| | | | | |
|--|---------|---------|---------|---------|
| Basic | \$ 0.26 | \$ 0.16 | \$ 0.82 | \$ 0.18 |
| Diluted | \$ 0.25 | \$ 0.16 | \$ 0.80 | \$ 0.18 |
| Shares used in computing net income per share: | | | | |
| Basic | 520,581 | 523,878 | 522,069 | 523,802 |
| Diluted | 534,880 | 538,132 | 537,158 | 532,686 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | September 30, 2010 | December 31, 2009 |
|---|-----------------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,460,914 | \$ 1,604,723 |
| Short-term investments | 638,523 | 570,522 |
| Accounts receivable, net of allowances | 473,953 | 458,652 |
| Deferred tax assets, net | 181,955 | 196,318 |
| Prepaid expenses and other current assets | 111,466 | 48,744 |
| Total current assets | 2,866,811 | 2,878,959 |
| Property and equipment, net | 484,802 | 455,651 |
| Long-term investments | 599,036 | 483,505 |
| Restricted cash | 79,080 | 53,732 |
| Purchased intangible assets, net | 47,629 | 13,834 |
| Goodwill | 3,759,631 | 3,658,602 |
| Long-term deferred tax assets, net | | 10,555 |
| Other long-term assets | 53,908 | 35,425 |
| Total assets | \$ 7,890,897 | \$ 7,590,263 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 251,431 | \$ 242,591 |
| Accrued compensation | 184,941 | 176,551 |
| Accrued warranty | 36,360 | 38,199 |
| Deferred revenue | 594,437 | 571,652 |
| Income taxes payable | 29,762 | 34,936 |
| Accrued litigation settlements | | 169,330 |
| Other accrued liabilities | 143,836 | 142,526 |
| Total current liabilities | 1,240,767 | 1,375,785 |
| Long-term deferred revenue | 190,701 | 181,937 |
| Long-term income tax payable | 98,198 | 170,245 |
| Other long-term liabilities | 44,332 | 37,531 |
| Commitments and Contingencies | See Note 15 | |
| 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; 521,141 shares and 519,341 shares issued and outstanding at September 30, 2010, and December 31, 2009, respectively | 5 | 5 |

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| | | |
|---|--------------|--------------|
| Additional paid-in capital | 9,449,553 | 9,060,089 |
| Accumulated other comprehensive income (loss) | 4,427 | (1,433) |
| Accumulated deficit | (3,137,836) | (3,236,525) |
| Total Juniper Networks stockholders' equity | 6,316,149 | 5,822,136 |
| Noncontrolling interest | 750 | 2,629 |
| Total equity | 6,316,899 | 5,824,765 |
| Total liabilities and equity | \$ 7,890,897 | \$ 7,590,263 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | Nine Months Ended September | |
|---|------------------------------------|-------------|
| | 30, | |
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Consolidated net income | \$ 429,290 | \$ 94,095 |
| Adjustments to reconcile consolidated net income to net cash from operating activities: | | |
| Depreciation and amortization | 112,366 | 111,803 |
| Share-based compensation | 129,555 | 101,445 |
| (Gain) loss on equity investments | (3,232) | 3,311 |
| Change in excess tax benefits from share-based compensation | (32,932) | 673 |
| Deferred income taxes | 26,425 | 41,996 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (15,093) | 56,729 |
| Prepaid expenses and other assets | (67,813) | (11,444) |
| Accounts payable | 8,464 | (778) |
| Accrued compensation | 8,390 | (20,873) |
| Accrued litigation settlements | (169,330) | |
| Income tax payable | (16,900) | 84,813 |
| Other accrued liabilities | 836 | 21,790 |
| Deferred revenue | 31,274 | 52,932 |
| Net cash provided by operating activities | 441,300 | 536,492 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment, net | (137,481) | (113,210) |
| Purchases of trading investments | (2,338) | |
| Purchases of available-for-sale investments | (1,361,510) | (1,164,833) |
| Proceeds from sales of available-for-sale investments | 440,788 | 202,276 |
| Proceeds from maturities of available-for-sale investments | 744,464 | 262,325 |
| Payment for business acquisition, net of cash and cash equivalents acquired | (133,333) | |
| Changes in restricted cash | (12,432) | (11,276) |
| Purchases of privately-held and other equity investments, net | (5,288) | (5,289) |
| Net cash used in investing activities | (467,130) | (830,007) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 257,693 | 131,391 |
| Purchases and retirement of common stock | (388,698) | (241,481) |
| Change in customer financing arrangements | (16,906) | 3,784 |
| Change in excess tax benefit from share-based compensation | 32,932 | (673) |
| Return of capital to noncontrolling interest | (3,000) | |
| Net cash used in financing activities | (117,979) | (106,979) |

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| | | |
|--|--------------|--------------|
| Net decrease in cash and cash equivalents | (143,809) | (400,494) |
| Cash and cash equivalents at beginning of period | 1,604,723 | 2,019,084 |
| Cash and cash equivalents at end of period | \$ 1,460,914 | \$ 1,618,590 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. (Juniper Networks or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information as well as the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or any future period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Quantitative and Qualitative Disclosures About Market Risk, and the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

As of September 30, 2010, 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.

Reclassifications

In the first quarter of 2010, the Company reclassified certain selling and marketing costs that were previously reported as cost of service revenues as sales and marketing expense. Accordingly, \$6.1 million and \$18.7 million of costs reported in the three and nine months ended September 30, 2009, respectively, have been reclassified from cost of service revenues to sales and marketing expense to conform to the current period's presentation. The reclassification did not impact the Company's previously reported net revenues, segment results, operating income, net income, or earnings per share.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Policy Changes

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, Topic 605 *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. Under the new standard, the Company allocates the total arrangement consideration to each separable element of an arrangement based upon the relative selling price of each element. Arrangement consideration allocated to undelivered elements is deferred until delivery. Concurrently with issuing ASU 2009-13, the FASB also issued ASU No. 2009-14, Topic 985 *Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14). ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software component and the non-software component function together to deliver the tangible products' essential functionality. The Company early adopted these standards on a prospective basis as of the beginning of fiscal 2010 for new and materially modified arrangements originating after December 31, 2009.

As a result of the adoption of ASU 2009-13 and ASU 2009-14, net revenues for the three and nine months ended September 30, 2010, were approximately \$50 million and \$128 million higher, respectively, than the net revenues that would have been recorded under the previous accounting rules. The increase in revenues was due to recognition of revenue for products booked and shipped during these periods which consisted primarily of \$31 million and \$91 million for the three and nine month periods ended September 30, 2010, respectively, related to undelivered product commitments for which the Company was unable to demonstrate fair value pursuant to the previous accounting standards. The remainder of the increase in revenue for the three and nine month periods was due to

products sold into multiple-year service arrangements which were recognized ratably under the previous accounting standards and for the change in the Company's allocation methodology from the residual method to the relative selling price method as prescribed by ASU 2009-13.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

For fiscal 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple elements and software and non-software components function together to deliver the tangible products essential functionality, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating largely interchangeable competitor products or services in stand-alone sales to similarly situated customers. However, as the Company's products contain a significant element of proprietary technology and its solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as the Company is unable to reliably determine what competitors products' selling prices are on a stand-alone basis, the Company is not typically able to determine TPE. The best estimate of selling price is established considering multiple factors including, but not limited to pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies, and industry technology lifecycles.

In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligation, or subject to customer-specific return or refund privileges. The Company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated refunds or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item, and the delivery and performance of the undelivered item is considered probable and substantially in the Company's control, the delivered element constitutes a separate unit of accounting. In circumstances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements, and the allocation of the arrangement consideration and revenue recognition

is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price. The new standards do not generally change the units of accounting for the Company's revenue transactions. The Company cannot reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary depending on the nature and volume of new or materially modified deals in any given period.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

For transactions entered into prior to January 1, 2010, revenue for arrangements with multiple elements, such as sales of products that include services, is allocated to each element using the residual method based on the VSOE of fair value of the undelivered items pursuant to ASC Topic 985-605, *Software Revenue Recognition*. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

The Company accounts for multiple agreements with a single customer as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement. The Company's ability to recognize revenue in the future may be affected if actual selling prices are significantly less than fair value. In addition, the Company's ability to recognize revenue in the future could be impacted by conditions imposed by its customers.

For sales to direct end-users, value-added resellers, and original equipment manufacturer (OEM) partners, the Company recognizes product revenue upon transfer of title and risk of loss, which is generally upon shipment. It is the Company's practice to identify an end-user prior to shipment to a value-added reseller. For the Company's end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. The Company's agreements with its OEM partners may allow future rights of return. A portion of the Company's sales is made through distributors under agreements allowing for pricing credits or rights of return. Product revenue on sales made through these distributors is recognized upon sell-through, as reported by the distributors to the Company. Deferred revenue on shipments to distributors reflects the effects of distributor pricing credits and the amount of gross margin expected to be realized upon sell-through. Deferred revenue is recorded net of the related product costs of revenue.

The Company records reductions to revenue for estimated product returns and pricing adjustments, such as rebates and price protection, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns and price protection credits, specific criteria outlined in rebate agreements, and other factors known at the time. Should actual product returns or pricing adjustments differ from estimates, additional adjustments to revenue may be required. In addition, the Company reports revenue net of sales taxes.

Service revenues include revenue from maintenance, training, and professional services. Maintenance is offered under renewable contracts. Revenue from maintenance service contracts is deferred and recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as services are completed or ratably over the contractual period, which is generally one year or less. The Company sells certain interests in accounts receivable on a non-recourse basis as part of customer financing arrangements primarily with one major financing company. Cash received under this arrangement in advance of revenue recognition is recorded as short-term debt.

Recent Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, Topic 310 *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20), which improves the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. ASU 2010-20 relates to disclosure requirements only and as such does not impact the Company's consolidated results of operations or financial condition.

In May 2010, the FASB issued ASU No. 2010-19, Topic 830 *Foreign Currency Issues: Multiple Foreign Currency Exchange Rates-An announcement made by the staff of the U.S. Securities and Exchange Commission* (ASU 2010-19), which incorporates the SEC Staff Announcement made at the March 18, 2010 meeting of the FASB Emerging Issues Task Force (EITF). The Staff Announcement provided the SEC staff's view on certain foreign currency issues related to investments in Venezuela. This guidance is effective as of the announcement date,

March 18, 2010. The Company's adoption of ASU 2010-19 did not have an impact on the Company's consolidated results of operations or financial condition.

In April 2010, the FASB issued ASU No. 2010-17, Topic 605 *Revenue Recognition - Milestone Method* (ASU 2010-17), which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years beginning on or after June 15, 2010, and interim periods within those years. Early

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

adoption is permitted; however, if a Company elects to early adopt, the amendment must be applied retrospectively from the beginning of the year of adoption. The Company's adoption of ASU 2010-17 is not expected to have an impact on its consolidated results of operations or financial condition.

In April 2010, the FASB issued ASU No. 2010-13, Topic 718 *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades* (ASU 2010-13), which provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those years beginning on or after December 15, 2010. The Company's adoption of ASU 2010-13 is not expected to have an impact on the Company's consolidated results of operations or financial condition.

In January 2010, the FASB issued ASU No. 2010-06, Topic 820 *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which provides additional fair value measurement disclosures and clarifies certain existing disclosure requirements. Except for the requirement to disclose purchases, sales, issuances, and settlements of Level 3 measurements on a gross basis, the disclosure and clarification requirements are effective for interim and annual reporting periods beginning after December 15, 2009. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements on a gross basis is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. ASU 2010-06 relates to disclosure requirements only and as such does not impact the Company's consolidated results of operations or financial condition.

Note 3. Business Combination

In the nine months ended September 30, 2010, the Company completed the acquisitions of Ankeena Networks, Inc., (Ankeena) and SMobile Systems, Inc. (SMobile).

Ankeena Acquisition

On April 19, 2010, the Company acquired 100% of the equity securities of Ankeena, a privately-held provider of new media infrastructure technology. The acquisition of Ankeena will provide the Company with strong video delivery capabilities, as Ankeena's products optimize web-based video delivery, provide key components of a content delivery network architecture/solution, improve consumers' online video experience, and reduce service provider and carrier service provider infrastructure costs for providing web-based video.

In connection with the acquisition of Ankeena, the Company assumed net assets of \$3.6 million, including cash and cash equivalents of \$2.3 million, and recognized goodwill of \$53.1 million, which was assigned to the Company's Infrastructure segment. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Ankeena, and the economies of scale expected from combining the operations of Ankeena and the Company. None of the goodwill is expected to be deductible for income tax purposes.

Prior to the acquisition, the Company had a \$2.0 million, or a 7.7% ownership interest in Ankeena, and accounted for it as a privately-held equity investment. As of the acquisition-date, the fair value of the equity interest in Ankeena was \$5.2 million based on a noncontrolling interest fair value and was included in the purchase price. The Company recognized a \$3.2 million gain, which was reported within gain (loss) on equity investments in its condensed consolidated statement of operations.

SMobile Acquisition

On July 30, 2010, the Company acquired 100% of the equity securities of SMobile, a privately-held software company focused solely on smartphone and tablet security solutions for the enterprise, service provider, and consumer markets. The acquisition of SMobile will allow the Company to extend its security focus through integration of SMobile's product portfolio with Juno® Pulse.

In connection with the acquisition of SMobile, the Company assumed net liabilities of \$5.0 million, including cash and cash equivalents of \$0.4 million, and recognized goodwill of \$47.9 million, which was assigned to the Company's Service Layer Technology (SLT) segment. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of SMobile, and the economies of scale expected from combining the operations of SMobile and the Company. None of the goodwill is expected to be deductible for income tax purposes.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

Total purchase consideration for these acquisitions is summarized as follows (in millions):

| | Ankeena | SMobile | Total |
|---|----------------|----------------|-----------------|
| Cash | \$ 66.5 | \$ 69.5 | \$ 136.0 |
| Assumed stock option and RSU awards allocated to purchase price (1) | 2.4 | | 2.4 |
| Total | \$ 68.9 | \$ 69.5 | \$ 138.4 |

(1) The fair value of the stock option and RSU awards assumed was based on the acquired company's determined value on the acquisition date.

Allocation of the purchase consideration for acquisitions completed during the nine months ended September 30, 2010, is summarized as follows (in millions):

| | Ankeena | SMobile | Total |
|----------------------------------|----------------|----------------|-----------------|
| Net assets (liabilities) assumed | \$ 3.6 | \$ (5.0) | \$ (1.4) |
| Intangible assets acquired | 12.2 | 26.6 | 38.8 |
| Goodwill | 53.1 | 47.9 | 101.0 |
| Total | \$ 68.9 | \$ 69.5 | \$ 138.4 |

The Company recognized \$1.5 million and \$2.1 million of acquisition-related costs in the three and nine months ended September 30, 2010, respectively, as a result of both acquisitions. These costs were expensed in the period incurred and reported in the Company's condensed consolidated statement of operations as acquisition-related and other charges.

The following table presents details of the intangible assets acquired through the business combinations completed during the nine months ended September 30, 2010 (in millions, except years):

| | Ankeena | | SMobile | | Total Amount |
|-------------------------------------|---|---------------|---|---------------|-------------------------|
| | Estimated Useful Life (In Years) | Amount | Estimated Useful Life (In Years) | Amount | |
| Existing technology | 4.0 | \$ 5.2 | 5.0 | \$ 24.3 | \$ 29.5 |
| In-process research and development | 4.0 | 3.8 | | | 3.8 |

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| | | | | | | |
|--|-----|---------|-----|---------|----|------|
| Core technology | 4.0 | 3.2 | | | | 3.2 |
| Customer contracts and related relationships | | | 6.0 | 2.1 | | 2.1 |
| Support agreements and related relationships | | | 6.0 | 0.1 | | 0.1 |
| Non-compete agreements | | | 2.0 | 0.1 | | 0.1 |
| Total | 4.0 | \$ 12.2 | 5.0 | \$ 26.6 | \$ | 38.8 |

Note 4. Net Income per Share

Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for that period. Diluted net income per share is computed giving effect to all dilutive potential shares that were outstanding during the period. Dilutive potential common shares consist of common shares issuable upon exercise of stock options, vesting of restricted stock units (RSUs), and vesting of performance share awards (PSAs).

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table presents the calculation of basic and diluted net income per share attributable to Juniper Networks common stockholders (in millions, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Numerator: | | | | |
| Net income attributable to Juniper Networks | \$ 134.5 | \$ 83.8 | \$ 428.2 | \$ 94.1 |
| Denominator: | | | | |
| Weighted-average shares used to compute basic net income per share | 520.6 | 523.9 | 522.1 | 523.8 |
| Effect of dilutive securities: | | | | |
| Employee stock awards | 14.3 | 14.2 | 15.1 | 8.9 |
| Weighted-average shares used to compute diluted net income per share | 534.9 | 538.1 | 537.2 | 532.7 |
| Net income per share attributable to Juniper Networks common stockholders: | | | | |
| Basic | \$ 0.26 | \$ 0.16 | \$ 0.82 | \$ 0.18 |
| Diluted | \$ 0.25 | \$ 0.16 | \$ 0.80 | \$ 0.18 |

The Company excludes outstanding stock options with exercise prices 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. Employee stock option awards and PSAs covering approximately 16.8 million and 16.4 million shares of the Company's common stock were outstanding but were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2010, respectively, because their effect would have been anti-dilutive. Employee stock awards covering approximately 24.4 million and 48.4 million shares of the Company's common stock in the three and nine months ended September 30, 2009, respectively, were outstanding, but were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****Note 5. Cash, Cash Equivalents, and Investments*****Cash and Cash Equivalents***

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

| | September 30, 2010 | As of December 31, 2009 |
|---------------------------------|-------------------------------|--|
| Cash and cash equivalents: | | |
| Cash: | | |
| Demand deposits | \$ 430.0 | \$ 427.2 |
| Time deposits | 276.3 | 127.9 |
| Total cash | 706.3 | 555.1 |
| Cash equivalents: | | |
| U.S. government securities | 7.0 | |
| Certificate of deposit | 5.0 | |
| Commercial paper | 10.0 | 17.0 |
| Money market funds | 732.6 | 1,032.6 |
| Total cash equivalents | 754.6 | 1,049.6 |
| Total cash and cash equivalents | \$ 1,460.9 | \$ 1,604.7 |

Investments in Available-for-Sale and Trading Securities

The following tables summarize the Company's unrealized gains and losses, and fair value of investments designated as trading or available-for-sale, as of September 30, 2010, and December 31, 2009 (in millions):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---------------------------|---------------------------------------|--|---------------------------------|
| As of September 30, 2010: | | | | |
| Fixed income securities: | | | | |
| U.S. government securities | \$ 288.4 | \$ 0.3 | \$ | \$ 288.7 |
| Government-sponsored enterprise obligations | 246.8 | 0.7 | | 247.5 |
| Foreign government debt securities | 52.1 | 0.4 | | 52.5 |
| Certificate of deposit | 18.6 | | | 18.6 |
| Commercial paper | 16.5 | | | 16.5 |
| Asset-backed securities | 74.1 | 0.1 | (0.1) | 74.1 |
| Corporate debt securities | 522.5 | 3.5 | (0.1) | 525.9 |
| Total fixed income securities | 1,219.0 | 5.0 | (0.2) | 1,223.8 |
| Publicly-traded equity securities | 11.3 | 2.5 | | 13.8 |
| Total | \$ 1,230.3 | \$ 7.5 | \$ (0.2) | \$ 1,237.6 |

| | | | | | |
|------------------------|----|---------|----|-----|---------------------|
| Reported as: | | | | | |
| Short-term investments | \$ | 634.9 | \$ | 3.7 | \$ (0.1) \$ 638.5 |
| Long-term investments | | 595.4 | | 3.8 | (0.1) 599.1 |
| Total | \$ | 1,230.3 | \$ | 7.5 | \$ (0.2) \$ 1,237.6 |

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

| | | Gross Unrealized | | Gross Unrealized | |
|---|---------------------------|-----------------------------|---------------|---------------------------------|---------|
| | Amortized Cost | Gains | Losses | Estimated Fair Value | |
| As of December 31, 2009: | | | | | |
| Fixed income securities: | | | | | |
| U.S. government securities | \$ 245.0 | \$ 0.1 | \$ | \$ | 245.1 |
| Government-sponsored enterprise obligations | 212.0 | 0.6 | (0.3) | | 212.3 |
| Foreign government debt securities | 96.4 | 0.3 | (0.1) | | 96.6 |
| Corporate debt securities | 488.2 | 2.0 | (0.3) | | 489.9 |
| Total fixed income securities | 1,041.6 | 3.0 | (0.7) | | 1,043.9 |
| Publicly-traded equity securities | 10.1 | | | | 10.1 |
| Total | \$ 1,051.7 | \$ 3.0 | \$ (0.7) | \$ | 1,054.0 |
| Reported as: | | | | | |
| Short-term investments | \$ 569.5 | \$ 1.0 | \$ | \$ | 570.5 |
| Long-term investments | 482.2 | 2.0 | (0.7) | | 483.5 |
| Total | \$ 1,051.7 | \$ 3.0 | \$ (0.7) | \$ | 1,054.0 |

The following table presents the Company's maturities of its available-for-sale investments and publicly-traded securities as of September 30, 2010 (in millions):

| | | Gross Unrealized | | Gross Unrealized | |
|-----------------------------------|---------------------------|-----------------------------|---------------|---------------------------------|---------|
| | Amortized Cost | Gains | Losses | Estimated Fair Value | |
| Fixed income securities: | | | | | |
| Due within one year | \$ 623.6 | \$ 1.2 | \$ (0.1) | \$ | 624.7 |
| Due between one and five years | 595.4 | 3.8 | (0.1) | | 599.1 |
| Total fixed income securities | 1,219.0 | 5.0 | (0.2) | | 1,223.8 |
| Publicly-traded equity securities | 11.3 | 2.5 | | | 13.8 |
| Total | \$ 1,230.3 | \$ 7.5 | \$ (0.2) | \$ | 1,237.6 |

The following table presents the Company's trading and available-for sale investments that are in a continuous unrealized loss position as of September 30, 2010 (in millions):

| Less than 12 Months | 12 Months or Greater | Total |
|---------------------|----------------------|-------|
|---------------------|----------------------|-------|

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| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
|--|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| Corporate debt securities | \$ 101.6 | \$ (0.1) | \$ 19.5 | \$ | \$ 121.1 | \$ (0.1) |
| U.S. government securities | 6.0 | | | | 6.0 | |
| Government-sponsored enterprise obligations | 17.2 | | 5.0 | | 22.2 | |
| Foreign government debt securities | 1.2 | | 5.0 | | 6.2 | |
| Asset-backed securities | 46.2 | (0.1) | | | 46.2 | (0.1) |
| Total | \$ 172.2 | \$ (0.2) | \$ 29.5 | \$ | \$ 201.7 | \$ (0.2) |

The Company had 46 and 52 investments in unrealized loss positions as of September 30, 2010, and December 31, 2009, respectively. The gross unrealized losses related to these investments were primarily due to changes in interest rates. The contractual terms of fixed income securities do not permit the issuer to settle the securities at a price less than the amortized cost of the investments. For the fixed income securities and publicly-traded equity securities that have unrealized losses, the Company has determined that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company did not consider these investments to be other-than-temporarily impaired as of September 30, 2010, and December 31, 2009, respectively. The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. The Company aggregates its investments by category and length of time the securities have been in a continuous unrealized loss position to facilitate its evaluation.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)*****Privately-Held and Other Equity Investments***

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

As of September 30, 2010, and December 31, 2009, the carrying values of the Company's privately-held and other equity investments of \$22.5 million and \$13.9 million, respectively, were included in other long-term assets in the condensed consolidated balance sheets. During the three and nine months ended September 30, 2010, the Company invested \$4.6 million and \$9.8 million, respectively, in privately-held and other equity investments. In the nine months ended September 30, 2010, the Company recognized a gain of \$3.2 million from its minority equity investment in Ankeena upon the acquisition of Ankeena.

During the three and nine months ended September 30, 2009, the Company recognized a loss of nil and \$3.3 million, respectively, due to the impairment of its minority equity investments in privately-held companies, that the Company judged to be other than temporary. The company invested \$6.3 million in privately-held companies during the nine months ended September 30, 2009. Additionally, during the nine months ended September 30, 2009, the Company had a minority equity investment in a privately-held company that was acquired by a publicly-traded company for which the Company received a cash payment of \$1.0 million and common stock of the acquiring company of \$1.0 million, which is classified as an available-for-sale investment. The Company had no minority equity investments in publicly-held companies during the three and nine months ended September 30, 2009.

Restricted Cash

Restricted cash consists of cash and investments held for escrow accounts required by certain acquisitions completed in 2005 and 2010, the India Gratuity Trust and the Israel Retirement Trust which cover statutory severance obligations in the event of termination of the Company's India and Israel employees, respectively, and the Directors and Officers (D&O) indemnification trust. During the three and nine months ended September 30, 2010, the Company increased its restricted cash by \$69.6 million and \$150.1 million, respectively, primarily for the escrow accounts required by the acquisition of Ankeena and SMobile that were completed in the second and third quarter of 2010, respectively, and to a lesser extent for the Israel Retirement Trust established in the first quarter of 2010. During the three and nine months ended September 30, 2010, the Company distributed approximately \$64.1 million and \$124.9 million, respectively, from its restricted accounts, mainly resulting from the Ankeena and SMobile acquisitions. In connection with the Ankeena acquisition, the Company agreed to pay from escrow a total amount of \$10.7 million, representing the cash value of unvested restricted shares in Ankeena as of April 8, 2010, to certain former Ankeena employees. As of September 30, 2010, the Company expects to release \$8.1 million from escrow as these restricted shares vest over the next two years.

The following table summarizes the Company's cash and investments that are classified as restricted cash in the condensed consolidated balance sheets (in millions):

| | September 30, 2010 | As of December 31, 2009 |
|----------------------------|-----------------------------------|--|
| Restricted cash: | | |
| Demand deposits | \$ 25.8 | \$ 3.8 |
| Total restricted cash | 25.8 | 3.8 |
| Restricted investments: | | |
| U.S. government securities | 0.6 | 19.8 |
| Corporate debt securities | 2.7 | |

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| | | |
|---------------------------------------|---------|---------|
| Money market funds | 50.0 | 30.1 |
| Total restricted investments | 53.3 | 49.9 |
| Total restricted cash and investments | \$ 79.1 | \$ 53.7 |

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

As of September 30, 2010, and December 31, 2009, the unrealized gains and losses related to restricted investments were immaterial.

Note 6. Fair Value Measurements

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

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

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

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

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)*****Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following tables provide a summary of assets measured at fair value on a recurring basis and their presentation on the Company's condensed consolidated balance sheets (in millions):

| | Fair Value Measurements at September 30, 2010 | | | Total |
|---|---|---|---|--------------|
| | Quoted Prices in Active Markets For Identical Assets (Level 1) | Using Significant Other Observable Remaining Inputs (Level 2) | Significant Other Unobservable Remaining Inputs (Level 3) | |
| Trading securities: | | | | |
| Mutual funds | \$ 7.2 | \$ | \$ | \$ 7.2 |
| Total trading securities | 7.2 | | | 7.2 |
| Available-for-sale debt securities: | | | | |
| U.S. government securities (1) | \$ 111.1 | \$ 185.2 | \$ | \$ 296.3 |
| Government-sponsored enterprise obligations | 226.7 | 20.8 | | 247.5 |
| Foreign government debt securities | 21.2 | 31.3 | | 52.5 |
| Commercial paper | | 26.5 | | 26.5 |
| Corporate debt securities (2) | 2.7 | 525.9 | | 528.6 |
| Certificate of deposit | | 23.6 | | 23.6 |
| Asset-backed securities | | 74.1 | | 74.1 |
| Money market funds (3) | 782.6 | | | 782.6 |
| Total available-for-sale debt securities | 1,144.3 | 887.4 | | 2,031.7 |
| Available-for-sale equity securities: | | | | |
| Technology securities | 6.6 | | | 6.6 |
| Total available-for-sale equity securities | 6.6 | | | 6.6 |
| Total available-for-sale securities | 1,150.9 | 887.4 | | 2,038.3 |
| Derivative assets: | | | | |
| Foreign exchange contracts | | 1.7 | | 1.7 |
| Total derivative assets | | 1.7 | | 1.7 |
| Total assets measured at fair value | \$ 1,158.1 | \$ 889.1 | \$ | \$ 2,047.2 |

- (1) Balance includes \$0.6 million of restricted investments measured at fair market value, related to an acquisition completed in 2005. For additional information regarding the Company's restricted investments, see Note 5, *Cash, Cash Equivalents, and Investments*, under the heading Restricted Cash. Restricted investments are included in the restricted cash balance in the condensed consolidated balance sheet.
- (2) Balance includes \$2.7 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.
- (3) Balance includes \$50.0 million of restricted

investments
measured at fair
market value,
related to the
Company's
D&O trust.

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

| Fair Value Measurements at September 30, 2010 | | | | |
|--|---|---|---|--------------|
| | Quoted Prices in Active Markets For Identical Assets (Level 1) | Using Significant Other Observable Remaining Inputs (Level 2) | Significant Other Unobservable Remaining Inputs (Level 3) | Total |
| Reported as: | | | | |
| Cash equivalents | \$ 732.6 | \$ 22.0 | \$ | \$ 754.6 |
| Short-term investments | 198.6 | 439.9 | | 638.5 |
| Long-term investments | 174.2 | 424.9 | | 599.1 |
| Restricted cash | 52.7 | 0.6 | | 53.3 |
| Prepaid expenses and other current assets | | 1.7 | | 1.7 |
| Total assets measured at fair value | \$ 1,158.1 | \$ 889.1 | \$ | \$ 2,047.2 |

| Fair Value Measurements at December 31, 2009 | | | | |
|---|---|---|---|--------------|
| | Quoted Prices in Active Markets For Identical Assets (Level 1) | Using Significant Other Observable Remaining Inputs (Level 2) | Significant Other Unobservable Remaining Inputs (Level 3) | Total |
| Reported as: | | | | |
| Cash equivalents | \$ 1,032.6 | \$ 17.0 | \$ | \$ 1,049.6 |
| Short-term investments | 101.3 | 469.2 | | 570.5 |
| Long-term investments | 181.2 | 302.3 | | 483.5 |
| Restricted cash | 49.9 | | | 49.9 |
| Total assets measured at fair value | \$ 1,365.0 | \$ 788.5 | \$ | \$ 2,153.5 |

As of September 30, 2010 and December 31, 2009, the Company had nil and \$1.5 million, respectively, of derivative liabilities measured at fair value on a recurring basis. The Company recorded the derivative liabilities, which related to its foreign exchange contracts, within other accrued liabilities in its condensed consolidated balance sheets. These liabilities were measured using significant other observable remaining inputs (Level 2) pursuant to the fair value hierarchy.

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, 2010, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities

measured at fair value.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the Company's assets that are measured at fair value on a nonrecurring basis at least annually or on a quarterly basis if impairment is indicated (in millions):

| | | Fair Value Measurements Using | | | Total Loss for the Three Months Ended September 30, 2010 | Total Loss for the Nine Months Ended September 30, 2010 |
|--------------------------------------|--|---|--|--|--|---|
| | | Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable Remaining Inputs (Level 2) | Significant Other Unobservable Remaining Inputs (Level 3) | | |
| | Carrying Value as of September 30, 2010 | | | | | |
| Privately-held equity investments | \$ 0.7 | \$ | \$ | \$ 0.7 | \$ | \$ |
| Total | \$ 0.7 | \$ | \$ | \$ 0.7 | \$ | \$ |

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

| | Carrying Value as of September 30, 2009 | Fair Value Measurements Using | | | Total Loss for the Three Months Ended September 30, 2009 | Total Loss for the Nine Months Ended September 30, 2009 |
|-----------------------------------|---|--|---|---|--|---|
| | | Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable Remaining Inputs (Level 2) | Significant Other Unobservable Remaining Inputs (Level 3) | | |
| Privately-held equity investments | \$ 1.7 | \$ | \$ | \$ 1.7 | \$ | \$ (3.3) |
| Total | \$ 1.7 | \$ | \$ | \$ 1.7 | \$ | \$ (3.3) |

Privately-held equity investments, which are normally carried at cost, were 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. As a result, the Company recognized an impairment loss of \$3.3 million during the nine months ended September 30, 2009, and classified the investments as a Level 3 asset due to the absence of quoted market prices and inherent lack of liquidity. The Company had no impairment charges against its privately-held equity investments during the three and nine months ended September 30, 2010.

Note 7. Goodwill and Purchased Intangible Assets**Goodwill**

The following table summarizes the Company's goodwill activities by segment in the nine months ended September 30, 2010 (in millions):

| | Infrastructure | SLT | Total |
|---|----------------|------------|------------|
| Balance as of January 1, 2010 | | | |
| Goodwill | \$ 1,500.5 | \$ 3,438.1 | \$ 4,938.6 |
| Accumulated impairment losses | | (1,280.0) | (1,280.0) |
| Carrying value at January 1, 2010 | 1,500.5 | 2,158.1 | 3,658.6 |
| Goodwill acquired during the nine months ended September 30, 2010 | 53.1 | 47.9 | 101.0 |
| Balance as of September 30, 2010 | | | |
| Goodwill | 1,553.6 | 3,486.0 | 5,039.6 |
| Accumulated impairment losses | | (1,280.0) | (1,280.0) |
| Carrying value at September 30, 2010 | \$ 1,553.6 | \$ 2,206.0 | \$ 3,759.6 |

During the three and nine months ended September 30, 2010, the Company recorded goodwill of \$47.9 million and \$101.0 million, respectively, as a result of its acquisitions of Ankeena and SMobile. For further discussion, see Note 3, *Business Combinations*, in the Notes to Condensed Consolidated Financial Statements. There were no impairments to goodwill during the three and nine months ended September 30, 2010, and 2009.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)*****Purchased Intangible Assets***

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

| | Gross | Accumulated Amortization | Additions | Net |
|----------------------------------|-----------------|-------------------------------------|------------------|----------------|
| As of September 30, 2010: | | | | |
| Technologies and patents | \$ 380.0 | \$ (378.6) | \$ 32.7 | \$ 34.1 |
| Other | 68.9 | (61.5) | 6.1 | 13.5 |
| Total | \$ 448.9 | \$ (440.1) | \$ 38.8 | \$ 47.6 |
| As of December 31, 2009: | | | | |
| Technologies and patents | \$ 380.0 | \$ (376.0) | \$ | \$ 4.0 |
| Other | 68.9 | (59.1) | | 9.8 |
| Total | \$ 448.9 | \$ (435.1) | \$ | \$ 13.8 |

During the three and nine months ended September 30, 2010, the Company recorded \$26.6 million and \$38.8 million, respectively, of purchased intangible assets as a result of its acquisitions of Ankeena and SMOBILE. For further discussion, see Note 3, *Business Combinations*, in the Notes to Condensed Consolidated Financial Statements. Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled \$2.4 million and \$2.7 million for the three months ended September 30, 2010, and 2009, respectively, and \$5.0 million and \$13.4 million for the nine months ended September 30, 2010, and 2009, respectively. There were no impairment charges with respect to the purchased intangible assets in the three and nine months ended September 30, 2010, and 2009.

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

| Years Ending December 31, | Amount |
|----------------------------------|----------------|
| 2010 (remaining three months) | \$ 2.9 |
| 2011 | 10.4 |
| 2012 | 9.6 |
| 2013 | 9.4 |
| 2014 | 7.6 |
| Thereafter | 7.7 |
| Total | \$ 47.6 |

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****Note 8. Other Financial Information*****Warranties***

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | \$ 38.3 | \$ 35.8 | \$ 38.2 | \$ 40.1 |
| Provisions made during the period, net | 13.7 | 14.7 | 37.9 | 33.4 |
| Change in estimate | (1.9) | (1.1) | (2.4) | (4.5) |
| Actual costs incurred during the period | (13.7) | (12.1) | (37.3) | (31.7) |
| Ending balance | \$ 36.4 | \$ 37.3 | \$ 36.4 | \$ 37.3 |

Deferred Revenue

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

| | September | As of |
|---|------------------|---------------------|
| | 30, | December 31, |
| | 2010 | 2009 |
| Deferred product revenue: | | |
| Undelivered product commitments and other product deferrals | \$ 277.7 | \$ 254.7 |
| Distributor inventory and other sell-through items | 128.2 | 136.6 |
| Deferred gross product revenue | 405.9 | 391.3 |
| Deferred cost of product revenue | (147.7) | (150.0) |
| Deferred product revenue, net | 258.2 | 241.3 |
| Deferred service revenue | 526.9 | 512.3 |
| Total | \$ 785.1 | \$ 753.6 |
| Reported as: | | |
| Current | \$ 594.4 | \$ 571.7 |
| Long-term | 190.7 | 181.9 |
| Total | \$ 785.1 | \$ 753.6 |

Deferred product revenue primarily 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 product costs of revenue. Deferred service revenue represents customer payments made in advance for services, which include technical support, hardware and software maintenance, professional services, and training.

Restructuring Liabilities

In 2009, the Company implemented a restructuring plan (the 2009 Restructuring Plan) in an effort to better align its business operations with the current market and macroeconomic conditions. The 2009 Restructuring Plan included a worldwide workforce reduction and restructuring of certain business functions and the reduction of facilities.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table provides a summary of changes in the Company's restructuring liability (in millions):

| | Remaining Liability as of December 31, 2009 | Charges | Cash payments | Adjustments | Remaining Liability as of September 30, 2010 |
|--|--|----------------|--------------------------|--------------------|---|
| Facilities | \$ 4.9 | \$ 6.8 | \$ (1.8) | \$ (1.6) | \$ 8.3 |
| Severance, contractual commitments, and other charges | 4.5 | 1.8 | (5.4) | (0.3) | 0.6 |
| Total | \$ 9.4 | \$ 8.6 | \$ (7.2) | \$ (1.9) | \$ 8.9 |

In connection with the 2009 Restructuring Plan, the Company recorded \$0.2 million and \$8.6 million of restructuring charges in the condensed consolidated statements of operations during the three and nine months ended September 30, 2010, respectively. The Company paid \$1.4 million and \$7.2 million for severance and facilities related charges associated with the 2009 Restructuring Plan during the three and nine months ended September 30, 2010, respectively. The Company recorded \$4.5 million and \$16.3 million in restructuring charges during the three and nine months ended September 30, 2009, for its 2009 Restructuring Plan. The Company paid \$2.8 million and \$6.0 million for severance related charges associated with the 2009 Restructuring Plan during the three and nine months ended September 30, 2009, respectively.

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

Interest and Other Income, Net

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest income and expense, net | \$ 0.3 | \$ 1.6 | \$ 1.8 | \$ 5.2 |
| Other income and expense, net | (0.1) | 0.1 | 0.7 | 1.4 |
| Total interest and other income, net | \$ 0.2 | \$ 1.7 | \$ 2.5 | \$ 6.6 |

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

Note 9. 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.

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of \$153.1 million and \$122.5 million during the three months ended September 30, 2010, and 2009, respectively, and \$435.5 million and \$294.9 million during the nine months ended September 30, 2010, and 2009, respectively.

During the three months ended September 30, 2010, and 2009, the Company received cash proceeds of \$147.0 million and \$101.5 million respectively, and \$423.5 million and \$277.2 million during the nine months ended September 30, 2010, and 2009, respectively, from the financing provider. The amounts owed by the financing provider recorded as accounts receivable on the Company's condensed consolidated balance sheets as of September 30, 2010, and December 31, 2009, was \$101.6 million and \$89.8 million, respectively.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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 sheet. As of September 30, 2010, and December 31, 2009, the estimated cash received from the financing provider not recognized as revenue from distributors was \$35.7 million and \$52.6 million, respectively.

Note 10. Derivative Instruments

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

Cash Flow Hedges

The Company uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of services and operating expenses. The derivatives are intended to protect the U.S. Dollar equivalent of the Company's planned cost of services and operating expenses denominated in foreign currencies. These derivatives are designated as cash flow hedges. Execution of these cash flow hedge derivatives typically occurs every month with maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) on the condensed consolidated balance sheets, and upon occurrence of the forecasted transaction, is subsequently reclassified into the cost of services or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments, which was immaterial during the three and nine months ended September 30, 2010, and 2009, respectively, in interest and other income, net, on its condensed consolidated statements of operations. Cash flows from such hedges are classified as operating activities. All amounts within accumulated other comprehensive income (loss) are expected to be reclassified into earnings within the next 12 months.

The total fair value of the Company's derivative assets located in other current assets on the condensed consolidated balance sheet as of September 30, 2010, and December 31, 2009, was \$1.7 million and \$0.2 million, respectively. The total fair value of the Company's derivative liabilities located in other accrued liabilities on the condensed consolidated balance sheet as of September 30, 2010, and December 31, 2009, was nil and \$1.5 million, respectively.

The Company recognized a gain of \$2.9 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of \$1.5 million from other comprehensive income to operating expense in the condensed consolidated statements of operations during the three months ended September 30, 2010. During the nine months ended September 30, 2010, the Company recognized a loss of \$1.6 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a loss of \$4.8 million from other comprehensive income to operating expense in the condensed consolidated statements of operations.

During the three months ended September 30, 2009, the Company recognized a gain of \$2.1 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a gain of \$3.3 million from other comprehensive income to operating expense in the condensed consolidated statements of operations. The Company recognized a gain of \$1.4 million in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a gain of \$1.6 million from other comprehensive income to operating expense in the condensed consolidated statements of operations during the nine months ended September 30, 2009.

The ineffective portion of the Company's derivative instruments recognized in its condensed consolidated statements of operations was immaterial during the three and nine months ended September 30, 2010, and 2009.

Non-Designated Hedges

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

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

As of September 30, 2010, the Company's top three outstanding derivative positions by currency were as follows (in millions):

| | Buy EUR | Buy GBP | Buy INR |
|-------------------------------------|------------|------------|------------|
| Foreign currency forward contracts: | | | |
| Notional amount of foreign currency | 25.3 | £ 9.8 | 1,333.1 |
| U.S. dollar equivalent | \$ 32.3 | \$ 14.8 | \$ 28.9 |
| | 2 | 2 | |
| Weighted-average maturity | months | months | 2 months |

During the three and nine months ended September 30, 2010, the Company recognized a gain on non-designated derivative instruments within interest and other income, net, on its condensed consolidated statements of operations of \$0.5 million and a loss of \$0.9 million, respectively. The Company recognized a gain of \$1.8 million and \$5.0 million on non-designated derivative instruments within interest and other income, net, on its condensed consolidated statements of operations during the three and nine months ended September 30, 2009, respectively.

Note 11. Equity***Stock Repurchase Activities***

In February 2010, the Company's Board of Directors (the "Board") approved a new stock repurchase program (the "2010 Stock Repurchase Program") which authorized the Company to repurchase up to \$1.0 billion of its common stock. This new authorization is in addition to the stock repurchase program approved by the Board in March 2008 (the "2008 Stock Repurchase Program"), which also enabled the Company to repurchase up to \$1.0 billion of the Company's common stock.

The Company repurchased approximately 5.0 million shares of its common stock at an average price of \$26.81 per share for an aggregate purchase price of \$134.9 million during the three months ended September 30, 2010, and approximately 14.3 million shares of its common stock at an average price of \$27.09 per share for an aggregate purchase price of \$386.7 million during the nine months ended September 30, 2010, under the two stock repurchase programs. The Company repurchased approximately 2.9 million shares of its common stock at an average price of \$24.67 per share for an aggregate purchase price of \$71.9 million during the three months ended September 30, 2009, and approximately 12.6 million shares of its common stock at an average price of \$19.18 per share for an aggregate purchase price of \$241.1 million during the nine months ended September 30, 2009, under the 2008 Stock Repurchase Program. As of September 30, 2010, there were no remaining authorized funds under the 2008 Stock Repurchase Program and \$931.8 million remaining authorized funds under the 2010 Stock Repurchase Program.

In addition to repurchases under the Company's stock repurchase programs, the Company repurchased common stock from its employees in connection with net issuance of shares to satisfy its tax withholding obligations for the vesting of certain RSUs and PSAs. The Company repurchased an immaterial amount of common stock from its employees in connection with net issuance of shares during the three months ended September 30, 2010, and repurchased approximately 0.1 million shares of its common stock at an average price of \$25.75 per share for an aggregate purchase price of \$1.9 million in connection with the net issuances during the nine months ended September 30, 2010. The Company repurchased an immaterial amount of common stock from its employees in connection with net issuance of shares during the three and nine months ended September 30, 2009.

All shares of common stock repurchased under the Company's 2008 and 2010 stock repurchase programs and from its employees in connection with net issuances have been retired. Future share repurchases under the Company's 2010 Stock Repurchase Program will be subject to a review of the circumstances in place at that time and will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)*****Comprehensive Income Attributable to Juniper Networks***

Comprehensive income attributable to Juniper Networks consists of the following (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Consolidated net income | \$ 134.3 | \$ 83.8 | \$ 429.3 | \$ 94.1 |
| Other comprehensive income, net of tax: | | | | |
| Change in unrealized gain (loss) on investments, net tax of nil | 8.7 | (0.9) | 7.0 | 1.7 |
| Change in foreign currency translation adjustment, net tax of nil | 6.3 | 4.9 | (1.2) | 6.0 |
| Total other comprehensive income, net of tax | 15.0 | 4.0 | 5.8 | 7.7 |
| Consolidated comprehensive income | 149.3 | 87.8 | 435.1 | 101.8 |
| Adjust for comprehensive income attributable to noncontrolling interest | 0.2 | | (1.1) | |
| Comprehensive income attributable to Juniper Networks | \$ 149.5 | \$ 87.8 | \$ 434.0 | \$ 101.8 |

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table summarizes equity activity for the three and nine months ended September 30, 2010 (in millions):

| | Common | | Accumulated | | |
|--|------------------------|----------------------|--------------------|--------------------|---------------|
| | Stock | | Other | | |
| | & | | | | |
| | Additional | Comprehensive | Accumulated | Non- | Total |
| | Paid-in-Capital | Income | Deficit | controlling | Equity |
| | | (Loss) | | Interest | |
| Balance at December 31, 2009 | \$ 9,060.1 | \$ (1.4) | \$ (3,236.5) | \$ 2.6 | \$ 5,824.8 |
| Consolidated net income | | | 163.1 | 1.5 | 164.6 |
| Change in unrealized loss on investments, net tax of nil | | (0.4) | | | (0.4) |
| Change in foreign currency translation adjustment, net tax of nil | | (2.7) | | | (2.7) |
| Issuance of shares in connection with Employee Stock Purchase Plan | 20.8 | | | | 20.8 |
| Exercise of stock options by employees, net of repurchases | 101.2 | | | | 101.2 |
| Return of capital to noncontrolling interest | | | | (2.0) | (2.0) |
| Retirement of common stock | (5.7) | | (68.7) | | (74.4) |
| Repurchases related to net issuances | | | (1.8) | | (1.8) |
| Share-based compensation expense | 40.6 | | | | 40.6 |
| Adjustment related to tax benefit from employee stock option plans | 50.6 | | | | 50.6 |
| Balance at March 31, 2010 | 9,267.6 | (4.5) | (3,143.9) | 2.1 | 6,121.3 |
| Consolidated net income | | | 130.5 | (0.2) | 130.3 |
| Change in unrealized loss on investments, net tax of nil | | (1.3) | | | (1.3) |
| Change in foreign currency translation adjustment, net tax of nil | | (4.8) | | | (4.8) |
| Exercise of stock options by employees, net of repurchases | 53.7 | | | | 53.7 |
| Return of capital to noncontrolling interest | | | | (1.0) | (1.0) |
| Shares assumed in connection with business acquisition | 2.3 | | | | 2.3 |
| Retirement of common stock | (9.1) | | (168.3) | | (177.4) |
| Share-based compensation expense | 43.3 | | | | 43.3 |

| | | | | | | |
|--|------------|--------|--------------|--------|--|------------|
| Adjustment related to tax benefit from employee stock option plans | 5.4 | | | | | 5.4 |
| Balance at June 30, 2010 | 9,363.2 | (10.6) | (3,181.7) | 0.9 | | 6,171.8 |
| Consolidated net income | | | 134.5 | (0.2) | | 134.3 |
| Change in unrealized gain on investments, net tax of nil | | 8.7 | | | | 8.7 |
| Change in foreign currency translation adjustment, net tax of nil | | 6.3 | | | | 6.3 |
| Issuance of shares in connection with Employee Stock Purchase Plan | 21.0 | | | | | 21.0 |
| Exercise of stock options by employees, net of repurchases | 62.4 | | | | | 62.4 |
| Return of capital to noncontrolling interest | | | | | | |
| Retirement of common stock | (44.4) | | (90.5) | | | (134.9) |
| Repurchases related to net issuances | | | (0.1) | | | (0.1) |
| Share-based compensation expense | 43.1 | | | | | 43.1 |
| Adjustment related to tax benefit from employee stock option plans | 4.3 | | | | | 4.3 |
| Balance at September 30, 2010 | \$ 9,449.6 | \$ 4.4 | \$ (3,137.8) | \$ 0.7 | | \$ 6,316.9 |

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table summarizes equity activity for the three and nine months ended September 30, 2009 (in millions):

| | Common Stock & Additional Paid-in-Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Equity |
|---|--|--|--------------------------------|-------------------------|
| Balance at December 31, 2008 | \$ 8,811.5 | \$ (4.2) | \$ (2,905.9) | \$ 5,901.4 |
| Consolidated net income | | | (4.5) | (4.5) |
| Change in unrealized loss on investments, net tax of nil | | (3.6) | | (3.6) |
| Change in foreign currency translation adjustment, net tax of nil | | (10.5) | | (10.5) |
| Issuance of shares in connection with Employee Stock Purchase Plan | 19.3 | | | 19.3 |
| Exercise of stock options by employees, net of repurchases | 3.3 | | | 3.3 |
| Retirement of common stock | (0.1) | | (119.7) | (119.8) |
| Share-based compensation expense | 33.6 | | | 33.6 |
| Adjustment related to tax benefit from employee stock option plans | 10.5 | | | 10.5 |
| Balance at March 31, 2009 | 8,878.1 | (18.3) | (3,030.1) | 5,829.7 |
| Consolidated net income | | | 14.7 | 14.7 |
| Change in unrealized gain on investments, net tax of nil | | 6.2 | | 6.2 |
| Change in foreign currency translation adjustment, net tax of nil | | 11.6 | | 11.6 |
| Exercise of stock options by employees, net of repurchases | 29.2 | | | 29.2 |
| Retirement of common stock | (0.4) | | (49.1) | (49.5) |
| Share-based compensation expense | 33.5 | | | 33.5 |
| Adjustment related to tax benefit from employee stock option plans | (58.6) | | | (58.6) |
| Balance at June 30, 2009 | 8,881.8 | (0.5) | (3,064.5) | 5,816.8 |
| Consolidated net income | | | 83.8 | 83.8 |
| Change in unrealized loss on investments, net tax of nil | | (0.9) | | (0.9) |
| Change in foreign currency translation adjustment, net tax of nil | | 4.9 | | 4.9 |
| Issuance of shares in connection with Employee Stock Purchase Plan | 19.8 | | | 19.8 |
| Exercise of stock options by employees, net of repurchases | 61.1 | | | 61.1 |
| Retirement of common stock | (0.4) | | (71.5) | (71.9) |

| | | | | | |
|--|-------------------|-----------|------------|---------------------|-------------------|
| Repurchases related to net issuances | | | | (0.2) | (0.2) |
| Share-based compensation expense | 34.4 | | | | 34.4 |
| Adjustment related to tax benefit from employee stock option plans | 9.6 | | | | 9.6 |
| Balance at September 30, 2009 | \$ 9,006.3 | \$ | 3.5 | \$ (3,052.4) | \$ 5,957.4 |

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, and in certain plans RSUs and 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,

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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. When the 2006 Plan was adopted and approved by the Company's stockholders in May 2006, it 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 million shares. In the second quarter of 2010, the Company's stockholders approved an amendment to the 2006 Plan that increased the number of shares reserved for issuance thereunder by an additional 30.0 million shares. As of September 30, 2010, the 2006 Plan had 58.8 million shares subject to currently outstanding equity awards and 31.8 million shares available for future issuance.

In connection with the acquisition of Ankeena, the Company assumed stock option and RSU awards under the Ankeena stock plan and exchanged those awards for stock options and RSUs covering approximately 0.8 million shares of the Company's common stock, based upon an exchange ratio prescribed by the acquisition agreement. As of September 30, 2010, stock options and RSUs covering approximately 2.1 million shares of common stock were outstanding under plans assumed through the Company's past acquisitions.

Stock Option Activities

The following table summarizes the Company's stock option activity and related information as of and for the nine months ended September 30, 2010 (in millions, except for per share amounts and years):

| | Number of Shares | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|------------------------------------|---------------------|--|---|---------------------------------|
| Balance at January 1, 2010 | 67.4 | \$ 20.84 | | |
| Options granted | 5.7 | 28.71 | | |
| Options assumed (1) | 0.4 | 29.42 | | |
| Options canceled | (1.8) | 21.64 | | |
| Options exercised | (12.2) | 17.94 | | |
| Options expired | (0.7) | 61.71 | | |
| Balance at September 30, 2010 | 58.8 | \$ 21.66 | 4.2 years | \$ 526.4 |
| As of September 30, 2010: | | | | |
| Vested or expected-to-vest options | 55.8 | \$ 21.56 | 4.1 years | \$ 505.3 |
| Exercisable options | 39.4 | \$ 20.86 | 3.6 years | \$ 386.8 |

(1) Stock options assumed in connection with the acquisition of Ankeena.

Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$30.35 per share as of September 30, 2010, 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

\$37.5 million and \$133.9 million for the three and nine months ended September 30, 2010, respectively. Total fair value of options vested for the three and nine months ended September 30, 2010, was \$19.2 million and \$66.3 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 granted 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.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table summarizes information about the Company's RSUs and PSAs as of and for the nine months ended September 30, 2010 (in millions, except per share amounts and years):

| | | Outstanding RSUs and PSAs | | | |
|---|---------------------------------|---|--|--|-------|
| | | Weighted Average Grant-Date Fair | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value | |
| | Number of Shares | Value per Share | | | |
| Balance at January 1, 2010 | 9.1 | \$ 21.76 | | | |
| RSUs granted | 3.4 | 29.27 | | | |
| RSUs assumed (1) | 0.4 | 31.18 | | | |
| PSAs granted (2) | 3.5 | 28.73 | | | |
| RSUs vested | (1.6) | 26.01 | | | |
| PSAs vested | (0.4) | 20.64 | | | |
| RSUs canceled | (0.5) | 24.72 | | | |
| PSAs canceled | (0.3) | 20.92 | | | |
| Balance at September 30, 2010: | 13.6 | \$ 25.13 | 1.8 years | \$ | 411.4 |
| As of September 30, 2010: | | | | | |
| Vested and expected-to-vest RSUs and PSAs | 10.4 | \$ 24.83 | 1.7 years | \$ | 315.7 |

(1) RSUs assumed in connection with the acquisition of Ankeena.

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

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

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 1.0 million shares at an average per share price of \$21.30 for the three months ended September 30, 2010, and 2.0 million shares at an average per share price of \$21.20 in the nine months ended September 30, 2010. Employees purchased approximately 1.6 million shares of common stock through the 2008 Purchase Plan at an average price of \$12.28 per share in the three and nine months ended September 30, 2009.

Employees purchased approximately 1.6 million shares of common stock through the 1999 Employee Stock Purchase Plan at an average price of \$12.04 per share in the nine months ended September 30, 2009. Effective February 1, 2009, immediately following the conclusion of the offering period ended January 30, 2009, the 1999 Employee Stock Purchase Plan was discontinued, and no shares remained available for future issuance.

As of September 30, 2010, approximately 2.0 million shares had been issued under the 2008 Purchase Plan, and 8.4 million shares remained available for future issuance under the 2008 Purchase Plan.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)*****Shares Available for Grant***

The following table presents the stock grant activity for the nine months ended September 30, 2010, and the total number of shares available for grant under the 2006 Plan as of September 30, 2010 (in millions):

| | Number of Shares |
|--|-----------------------------|
| Balance at January 1, 2010 | 18.0 |
| Additional authorized share reserve approved by stockholders | 30.0 |
| RSUs and PSAs granted (1) | (14.5) |
| Options granted | (5.7) |
| RSUs canceled (1) | 1.5 |
| Options canceled (2) | 1.8 |
| Options expired (2) | 0.7 |
| Balance at September 30, 2010 | 31.8 |

- (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 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 unexercised after May 18, 2006, which become available for grant under the 2006 Plan according to its terms.

Common Stock Reserved for Future Issuance

As of September 30, 2010, the Company had reserved an aggregate of approximately 112.6 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. 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.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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.

The assumptions used and the resulting estimates of fair value for employee stock options and the employee stock purchase plan during the three and nine months ended September 30, 2010, and 2009 were:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|---|-------------------|--|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Employee Stock Options: | | | | |
| Volatility factor | 39% - 42% | 43% - 46% | 33% - 42% | 43% - 58% |
| Risk-free interest rate | 1.1% - 1.4% | 0.4% - 4.2% | 1.1% - 2.2% | 0.4% - 4.2% |
| Expected life (years) | 4.3 | 4.3 - 5.7 | 4.3 | 4.3 - 5.8 |
| Dividend yield | | | | |
| Fair value per share | \$ 8.93 - \$9.81 | \$ 9.52 - \$10.25 | \$ 7.83 - \$30.36 | \$ 6.02 - \$10.49 |
| Employee Stock Purchase Plan: | | | | |
| Volatility factor | 36% | 46% | 35% - 36% | 46% - 58% |
| Risk-free interest rate | 0.2% | 0.3% | 0.2% | 0.3% - 0.4% |
| Expected life (years) | 0.5 | 0.5 | 0.5 | 0.5 |
| Dividend yield | | | | |
| Weighted-average fair value per share | \$ 7.09 | \$ 7.35 | \$ 6.19 - \$7.09 | \$ 4.51 - \$7.35 |

The Company expenses the cost of its stock options, on a straight line basis, over the vesting period. The Company expenses the cost of its RSUs ratably over the vesting period. The Company recognizes PSA expense over the vesting period, beginning in the period in which the performance conditions are set. The weighted-average fair value per share of RSUs and PSAs granted during these periods were:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Weighted-average fair value per share: | | | | |
| RSUs | \$ 28.18 | \$ 25.86 | \$ 29.27 | \$ 16.09 |
| PSAs | \$ 27.76 | \$ 26.30 | \$ 28.73 | \$ 17.18 |

The Company's share-based compensation expense associated with stock options, employee stock purchases, RSUs, and PSAs is recorded in the following cost and expense categories for the three and nine months ended September 30, 2010, and 2009 (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Cost of revenues - Product | \$ 1.0 | \$ 0.9 | \$ 3.1 | \$ 2.8 |
| Cost of revenues - Service (1) | 3.2 | 2.6 | 10.0 | 7.6 |
| Research and development | 19.3 | 14.3 | 55.0 | 44.0 |
| Sales and marketing (1) | 13.4 | 11.0 | 39.0 | 31.8 |

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| | | | | |
|----------------------------|---------|---------|----------|----------|
| General and administrative | 7.5 | 5.5 | 22.5 | 15.2 |
| Total | \$ 44.4 | \$ 34.3 | \$ 129.6 | \$ 101.4 |

(1) Prior period information has been reclassified to conform to the current period's presentation.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Options | \$ 20.5 | \$ 20.5 | \$ 61.4 | \$ 60.0 |
| Assumed options | | | 0.6 | |
| Other acquisition-related compensation | 1.3 | | 2.6 | |
| Assumed RSUs | | | 0.5 | |
| RSUs and PSAs | 19.1 | 10.3 | 54.6 | 30.3 |
| Employee stock purchase plan | 3.5 | 3.5 | 9.9 | 11.1 |
| Total | \$ 44.4 | \$ 34.3 | \$ 129.6 | \$ 101.4 |

As of September 30, 2010, approximately \$118.2 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted-average period of approximately 2.4 years while approximately \$130.0 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 2.4 years.

401(k) Plan

The Company maintains a savings and retirement plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees meeting the eligibility requirements, as defined, may contribute up to the statutory limits of the 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 \$3.2 million and \$10.7 million in the three and nine months ended September 30, 2010, respectively, and \$2.8 million and \$9.8 million in the three and nine months ended September 30, 2009, 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 investments, and offsetting obligations are included within accrued compensation on the condensed consolidated balance sheet. The investments are considered trading securities and are reported at fair value. The realized and unrealized holding gains and losses related to these investments are recorded in interest and other income, net, and the offsetting compensation expense are recorded as operating expenses in the condensed consolidated results of operations. The deferred compensation liability under the NQDC plan was approximately \$7.2 million and \$4.7 million as of September 30, 2010, and December 31, 2009, respectively.

Note 13. Segments

The Company's chief operating decision maker (CODM) allocates resources and assesses performance based on financial information by the Company's business groups. The Company's operations are organized into two reportable segments: Infrastructure and SLT. The Infrastructure segment includes products from the E-, M-, MX-, and T-series router product families, EX-series switching products, as well as the circuit-to-packet products. The SLT segment consists primarily of Firewall virtual private network (Firewall) systems and appliances, SRX service gateways, secure socket layer (SSL) virtual private network (VPN) appliances, intrusion detection and prevention (IDP) appliances, the J-series router product family and wide area network (WAN) optimization platforms.

The primary financial measure used by the CODM in assessing performance of the segments is segment operating income, which includes certain cost of revenues, research and development (R&D) expenses, sales and marketing expenses, and general and administrative (G&A) expenses. The CODM does not allocate certain miscellaneous

expenses to its segments even though such expenses are included in the Company's management operating income.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

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, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net revenues: | | | | |
| Infrastructure: | | | | |
| Product | \$ 607.6 | \$ 472.0 | \$ 1,753.9 | \$ 1,396.2 |
| Service | 136.5 | 123.2 | 389.2 | 350.1 |
| Total Infrastructure revenues | 744.1 | 595.2 | 2,143.1 | 1,746.3 |
| SLT: | | | | |
| Product | 193.6 | 162.1 | 542.5 | 432.7 |
| Service | 74.7 | 66.6 | 217.7 | 195.5 |
| Total SLT revenues | 268.3 | 228.7 | 760.2 | 628.2 |
| Total net revenues | 1,012.4 | 823.9 | 2,903.3 | 2,374.5 |
| Operating income: | | | | |
| Infrastructure | 179.9 | 126.9 | 537.6 | 358.8 |
| SLT | 64.6 | 44.4 | 152.3 | 79.6 |
| Total management operating income | 244.5 | 171.3 | 689.9 | 438.4 |
| Amortization of purchased intangible assets | | | | |
| (1) | (2.4) | (2.7) | (5.0) | (13.4) |
| Share-based compensation expense | (44.4) | (34.3) | (129.6) | (101.4) |
| Share-based payroll tax expense | (0.5) | (0.8) | (3.8) | (1.5) |
| Restructuring charges | (0.2) | (4.5) | (8.6) | (16.3) |
| Acquisition-related and other charges | (1.5) | (1.0) | (2.1) | (1.0) |
| Total operating income | 195.5 | 128.0 | 540.8 | 304.8 |
| Interest and other income, net | 0.2 | 1.7 | 2.5 | 6.6 |
| Gain (loss) on equity investment | | | 3.2 | (3.3) |
| Income before income taxes and noncontrolling interest | \$ 195.7 | \$ 129.7 | \$ 546.5 | \$ 308.1 |

(1)

Amount
includes
amortization
expense of
purchased
intangible assets
in operating
expenses and in
cost of
revenues.

Depreciation expense allocated to the Infrastructure segment was \$27.8 million and \$78.9 million in the three and nine months ended September 30, 2010, respectively, and \$24.1 million and \$69.1 million in the three and nine months ended September 30, 2009, respectively. The depreciation expense allocated to the SLT segment was 9.4 million and \$28.5 million in the three and nine months ended September 30, 2010, respectively, and \$9.7 million and \$29.4 million in the three and nine months ended September 30, 2009, respectively.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

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, | |
|--------------------------------|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Americas: | | | | |
| United States | \$ 481.2 | \$ 380.3 | \$ 1,368.0 | \$ 1,045.4 |
| Other | 51.6 | 42.5 | 147.4 | 128.0 |
| Total Americas | 532.8 | 422.8 | 1,515.4 | 1,173.4 |
| Europe, Middle East and Africa | 275.9 | 243.2 | 829.5 | 698.3 |
| Asia Pacific | 203.7 | 157.9 | 558.4 | 502.8 |
| Total | \$ 1,012.4 | \$ 823.9 | \$ 2,903.3 | \$ 2,374.5 |

During the three months ended September 30, 2010, no single customer accounted for greater than 10.0% of the Company's net revenues, and during the nine months ended September 30, 2010, Verizon Communications, Inc. (Verizon) accounted for 10.0% of net revenues. During the three months ended September 30, 2009, Verizon accounted for 10.4% of net revenues. No single customer accounted for greater than 10.0% or more of the Company's net revenues during the nine months ended September 30, 2009.

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, 2010, and December 31, 2009, were attributable to U.S. operations. As of September 30, 2010, and December 31, 2009, property and equipment, held in the U.S. as a percentage of total property and equipment was approximately 80.0%. 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 \$61.4 million and \$45.9 million for the three months ended September 30, 2010, and 2009, or effective tax rates of 31% and 35%, respectively. The Company recorded a tax provision of \$117.2 million and \$214.0 million for the nine months ended September 30, 2010, and 2009, or effective tax rates of 21% and 69%, respectively.

The effective tax rates for the three and nine months ended September 30, 2010, differ from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates, and a \$54.1 million income tax benefit recorded during the Company's first quarter resulting from a change in the Company's estimate of unrecognized tax benefits related to share-based compensation. The change in estimate was a result of the taxpayer favorable ruling by the U.S. Court of Appeals for the Ninth Circuit (the Court) in *Xilinx Inc. v. Commissioner* in March 2010. These benefits were partially offset by charges for increases in the valuation allowance against the Company's California deferred tax assets of approximately \$3.2 million and \$8.4 million in the three and nine months ended September 30, 2010, respectively.

The effective tax rates for the three and nine months ended September 30, 2009, differ from the federal statutory rate of 35% primarily due to three income tax charges: a \$4.6 million charge in the Company's third quarter of 2009 related to an investigation by the Indian tax authorities, a \$52.1 million charge in the Company's second quarter of 2009, related to a change in the Company's estimate of unrecognized tax benefits as a result of the original decision reached in May of 2009 by the Court in *Xilinx Inc. v. Commissioner*, which was not held in favor of the taxpayer, and a \$61.8 million charge which resulted from changes in California income tax laws enacted during the Company's first quarter of 2009. The tax rates for the three and nine month periods ended September 30, 2009, were favorably

impacted by the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates, and the federal R&D credit.

The gross unrecognized tax benefits decreased by approximately \$68.3 million for the nine months ended September 30, 2010. Interest and penalties for the same period decreased by approximately \$5.1 million. Interest and penalties accrued for the three months ended September 30, 2010, were not significant. The decrease in the gross unrecognized tax benefits and the accrued interest and penalties is primarily related to the change in estimate during the Company's first quarter of 2010, resulting from the Court's decision in *Xilinx v. Commissioner* referenced above.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

The Company is currently under examination by the Internal Revenue Service (IRS) for the 2004 through 2006 tax years, the China tax authorities for the 2009 tax year, and the France tax authorities for the 2007 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, and has received an inquiry from the Hong Kong tax authorities for the 2002 through 2008 tax years. Additionally, the Company has not reached a final resolution with the IRS on an adjustment it proposed for the 1999 and 2000 tax years. The Company is not aware of any other income tax examination by taxing authorities in any other major jurisdictions in which it files income tax returns as of September 30, 2010.

In 2009, as part of the on-going 2004 IRS audit, the Company received a proposed adjustment related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. In March 2009 and April 2010, the Company received assessments from the Hong Kong tax authorities specifically related to inquiries of the 2002 and 2003 tax years, respectively. In December 2008, the Company received a proposed adjustment from the India tax authorities related to the 2004 tax year.

In July 2009, the India tax authorities commenced a separate investigation of our 2004 through 2008 tax returns and are disputing the Company's determination of taxable income due to the cost basis of certain fixed assets. The Company accrued \$4.6 million in penalties 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 a possibility that an adverse outcome of these matters could have a material effect on its consolidated financial condition and results of operations. For more information, please see Note 15, *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 \$7.1 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. Commitments and Contingencies***Commitments***

The following table summarizes the Company's future principal contractual obligations as of September 30, 2010 (in millions):

| | Total | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | Other |
|-------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Operating leases | \$ 278.8 | \$ 13.3 | \$ 45.8 | \$ 40.6 | \$ 31.1 | \$ 25.8 | \$ 122.2 | \$ |
| Sublease rental income | (0.2) | (0.2) | | | | | | |
| Purchase commitments | 186.0 | 186.0 | | | | | | |
| Tax liabilities | 102.2 | | | | | | | 102.2 |
| Other contractual obligations | 57.9 | 28.6 | 18.0 | 9.5 | 1.8 | | | |

| | | | | | | | | |
|-------|----------|----------|---------|---------|---------|---------|----------|----------|
| Total | \$ 624.7 | \$ 227.7 | \$ 63.8 | \$ 50.1 | \$ 32.9 | \$ 25.8 | \$ 122.2 | \$ 102.2 |
|-------|----------|----------|---------|---------|---------|---------|----------|----------|

Operating Leases

The Company leases its facilities under operating leases that expire at various times, the longest of which expires in November 22, 2022. Future minimum payments under the non-cancelable operating leases, net of committed sublease income, totaled \$278.6 million as of September 30, 2010. Rent expense was \$14.0 million and \$41.8 million for the three and nine months ended September 30, 2010, respectively, and \$14.2 million and \$42.6 million for the three and nine months ended September 30, 2009, respectively.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)***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, 2010, there were NCNR component orders placed by the contract manufacturers with a value of \$186.0 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, 2010, the Company had accrued \$21.2 million based on its estimate of such charges.

Tax Liabilities

As of September 30, 2010, the Company had \$102.2 million included in current and long-term liabilities in the condensed consolidated balance sheet for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to the additional \$102.2 million in liability due to uncertainties in the timing of tax audit outcomes.

Other Contractual Obligations

As of September 30, 2010, other contractual obligations primarily consisted of \$26.9 million of indemnity-related and service related escrows, required by certain acquisitions completed in 2005 and 2010, \$14.1 million remaining balance for a data center hosting agreement that requires payments through the end of April 2013, \$9.1 million for license and service agreements, and \$7.7 million under a software subscription agreement that requires payments through the end of January 2011.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company's products infringe the intellectual property rights of a third-party. Other guarantees or indemnification arrangements include guarantees of product and service performance, guarantees related to third-party customer-financing arrangements, and standby letters of credit for certain lease facilities. As of September 30, 2010, the Company had \$22.4 million in guarantees and standby letters of credit and recorded a liability of \$8.8 million related to a third-party customer-financing guarantee. As of December 31, 2009, the Company had \$34.0 million in guarantees and standby letters of credit along with a liability of \$21.9 million related to a third-party customer-financing guarantee.

Legal Proceedings

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

Federal Securities Class Action

On July 14, 2006, and August 29, 2006, two purported class actions were filed in the Northern District of California against the Company and certain of the Company's current and former officers and directors. On November 20, 2006, the Court consolidated the two actions as *In re Juniper Networks, Inc. Securities Litigation*, No. C06-04327-JW, and appointed the New York City Pension Funds as lead plaintiffs. The lead plaintiffs filed a Consolidated Class Action Complaint on January 12, 2007, and filed an Amended Consolidated Class Action Complaint on April 9, 2007. The Amended Consolidated Complaint alleges that the defendants violated federal securities laws by manipulating stock option grant dates to coincide with low stock prices and issuing false and misleading statements including, among

others, incorrect financial statements due to the improper accounting of stock option grants. The Amended Consolidated Complaint asserts claims for violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 on behalf of all persons who purchased or otherwise acquired Juniper Networks' publicly-traded securities from July 12, 2001, through and including August 10, 2006. Plaintiffs seek unspecified damages in an

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

unspecified amount. On June 7, 2007, the defendants filed a motion to dismiss certain of the claims, and a hearing was held on September 10, 2007. On March 31, 2008, the Court issued an order granting in part and denying in part the defendants' motion to dismiss. The order dismissed with prejudice plaintiffs' section 10(b) claim to the extent it was based on challenged statements made before July 14, 2001. The order also dismissed, with leave to amend, plaintiffs' section 10(b) claim against Pradeep Sindhu. The order upheld all of plaintiffs' remaining claims. Plaintiffs did not amend their complaint.

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

On February 5, 2010, the Company and the lead plaintiffs entered into an agreement in principle to settle the claims against the Company and each of the Company's current and former officers and directors. The settlement was contingent upon final approval by the Court. On April 12, 2010, the Court granted preliminary approval of the proposed settlement. On August 30, 2010, the Court held a fairness hearing to consider whether to grant final approval of the settlement. On August 31, 2010, the Court granted final approval of the settlement and issued a Final Judgment and Order of Dismissal with Prejudice. Under the settlement, the claims against the Company and its officers and directors were dismissed with prejudice and released in exchange for a \$169.0 million cash payment by the Company. The Company considered the proposed payment to be probable and reasonably estimable and, therefore, recorded the cash settlement amount as a pre-tax operating expense in its consolidated statement of operations for the fourth quarter ended December 31, 2009.

IPO Allocation Case

In December 2001, a class action complaint was filed in the United States District Court for the Southern District of New York against the Goldman Sachs Group, Inc., Credit Suisse First Boston Corporation, FleetBoston Robertson Stephens, Inc., Royal Bank of Canada (Dain Rauscher Wessels), SG Cowen Securities Corporation, UBS Warburg LLC (Warburg Dillon Read LLC), Chase (Hambrecht & Quist LLC), J.P. Morgan Chase & Co., Lehman Brothers, Inc., Salomon Smith Barney, Inc., Merrill Lynch, Pierce, Fenner & Smith, Incorporated (collectively, the

Underwriters), Juniper Networks and certain of Juniper Networks' officers. This action was brought on behalf of purchasers of the Company's common stock in its initial public offering in June 1999 and the Company's secondary offering in September 1999.

Specifically, among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company's initial public offering and the Company's subsequent secondary offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation*, 21 MC 92. In April 2002, the plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934.

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

the Second Circuit Court of Appeals.

IRS Notices of Proposed Adjustments

In 2007, the IRS opened an examination of the Company's U.S. federal income tax and employment tax returns for the 2004 fiscal year. Subsequently, the IRS extended their examination of the Company's employment tax returns to include fiscal years 2005 and 2006. As of September 30, 2010, the IRS has not yet concluded its examinations of these returns. In September 2008, as part of its ongoing audit of the U.S. federal income tax return, the IRS issued a Notice of Proposed Adjustment (NOPA) regarding the Company's business credits. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to this proposed adjustment.

Table of Contents**Juniper Networks, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)**

In July 2009, the Company received a NOPA from the IRS claiming that the Company owes additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. The asserted changes to the Company's 2004 tax year would affect the Company's income tax liabilities in tax years subsequent to 2003. Because of the NOPA, the estimated incremental tax liability would be approximately \$807.0 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS, which has been referred to the Appeals Division of the IRS; however an Appeals conference has not yet been scheduled. The Company strongly believes the IRS' position with regard to this matter is inconsistent with applicable tax laws and existing Treasury regulations, and that the Company's previously reported income tax provision for the year in question is appropriate. However, there can be no assurance that this matter will be resolved in the Company's favor. Regardless of whether this matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend and/or settle. While the Company believes it has provided adequately for this matter, there is a possibility that an adverse outcome of the matter could have a material effect on its results of operations and financial condition.

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

Note 16. Joint Venture

In 2009, the Company entered into an agreement to form a joint venture to provide a combined carrier Ethernet-based solution with NSN. Since inception, the Company has had a 60 percent interest in the joint venture. Both NSN and Juniper Networks are entitled to appoint two board members to the board of the joint venture. The board shall consist of four board members at all times.

Given the Company's majority ownership interest in the joint venture, the venture's financial results have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded to reflect the noncontrolling investor's interest in the venture's results. All intercompany transactions have been eliminated, with the exception of the noncontrolling interest.

Note 17. Subsequent Events***Stock Repurchases***

Subsequent to September 30, 2010, through the filing of this report, the Company repurchased and retired approximately 2.9 million shares of its common stock for approximately \$92.6 million under its 2010 Stock Repurchase program at an average purchase price of \$31.85 per share. The Company's 2010 Stock Repurchase Program had remaining authorized funds of \$839.2 million as of the report filing date. Purchases under the Company's 2010 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, 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 expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled Risk Factors in Item 1A of Part II and elsewhere, and in other reports we file with the SEC, specifically our most recent Annual Report on Form 10-K. While forward-looking statements are based on reasonable expectations of our management at the time that they are made, you should not rely on them. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included elsewhere in this Report, which have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingencies. On an ongoing basis, we evaluate our estimates, including those related to sales returns, pricing credits, warranty costs, allowance for doubtful accounts, impairment of long-term assets, especially goodwill and intangible assets, contract manufacturer exposures for carrying and obsolete material charges, assumptions used in the valuation of share-based compensation, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For further information about our critical accounting policies and estimates, see Note 2, *Summary of Significant Accounting Policies*, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, and our Critical Accounting Policies and Estimates section included in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Actual results may differ from these estimates under different assumptions or conditions.

To aid in understanding our operating results for the periods covered by this Report, we have provided an executive overview and a summary of the business and market environment. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 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.

Executive Overview

Our financial performance for the third quarter of 2010 reflects our continued focus on investing in innovations that deliver long-term value to our customers and expanding operating margins. In the third quarter of 2010, net revenues increased year-over-year in both the enterprise and service provider markets across our three geographic regions. These increases reflect the recovering global economy, as well as growing market demand for networking and security products in response to our customers' network expansions. Additionally, while our net revenues grew, we continued to control costs as we invest in our innovation and customer satisfaction initiatives.

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The following table provides an overview of our key financial metrics for the three and nine months ended September 30, 2010, and 2009 (in millions, except per share amounts and percentages):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|--------------|--------------|---------|---------------------------------|--------------|--------------|---------|
| | 2010 | 2009 | \$ Change | %Change | 2010 | 2009 | \$ Change | %Change |
| Net revenues | \$ 1,012.4 | \$ 823.9 | \$ 188.5 | 23% | \$ 2,903.3 | \$ 2,374.5 | \$ 528.8 | 22% |
| Operating income | \$ 195.5 | \$ 128.0 | 67.5 | 53% | \$ 540.8 | \$ 304.8 | 236.0 | 77% |
| <i>Percentage of net revenues</i> | <i>19.3%</i> | <i>15.5%</i> | | | <i>18.6%</i> | <i>12.8%</i> | | |
| Net income attributable to Juniper Networks | \$ 134.5 | \$ 83.8 | 50.7 | 61% | \$ 428.2 | 94.1 | \$ 334.1 | 355% |
| <i>Percentage of net revenues</i> | <i>13.3%</i> | <i>10.2%</i> | | | <i>14.7%</i> | <i>4.0%</i> | | |
| Net income per share attributable to Juniper Networks common stock holders: | | | | | | | | |
| Basic | \$ 0.26 | \$ 0.16 | \$ 0.10 | 63% | \$ 0.82 | \$ 0.18 | \$ 0.64 | 356% |
| Diluted | \$ 0.25 | \$ 0.16 | \$ 0.09 | 56% | \$ 0.80 | \$ 0.18 | \$ 0.62 | 344% |

Net revenues: Our net revenues increased across all three regions, in both the service provider and enterprise markets, in the three and nine months ended September 30, 2010, compared to the same periods in 2009. These increases were primarily due to the recovering global economy and increased demand for our most recent product lines, the EX-series switches, MX-series routers, and SRX service gateways.

Operating Income: Our operating income as well as operating margin increased in the three and nine months ended September 30, 2010, compared to the same periods in 2009. These increases were, in large part, due to the increase in revenues and our continued efforts to control expenses and improve efficiencies while focusing our investments in key strategic growth areas.

Net Income Attributable to Juniper Networks and Net Income Per Share Attributable to Juniper Networks Common Stock Holders: The increase in net income attributable to Juniper Networks in the three months ended September 30, 2010, compared to the same period in 2009, is primarily due to the increase in operating income during the period. Net income attributable to Juniper Networks increased in the nine months ended September 30, 2010, compared to the same period in 2009, is primarily due to the increase in operating income during the period and the non-recurring income tax benefit of \$54.1 million we received in the first quarter from a change in estimate of unrecognized tax benefits related to share-based compensation. The change resulted from the decision in the first quarter of 2010 of the U.S. Court of Appeals for the Ninth Circuit in *Xilinx Inc. v. Commissioner*.

Stock Repurchase Activity: Under our stock repurchase programs, we repurchased approximately 5.0 million shares of our common stock on the open market at an average price of \$26.81 per share for an aggregate purchase price of \$134.9 million during the three months ended September 30, 2010, and approximately 14.3 million shares of our common stock at an average price of \$27.09 per share for an aggregate purchase price of \$386.7 million during the nine months ended

September 30, 2010.

Other Financial Highlights: Total deferred revenue increased \$31.5 million to \$785.1 million as of September 30, 2010, compared to \$753.6 million as of December 31, 2009, primarily due to an increase in deferred product revenue from undelivered product commitments and an increase in deferred service revenue, largely due to higher sales of service contracts and multi-year service billings.

Business and Market Environment

We design, develop, and sell products and services that together provide our customers with high-performance network infrastructure that creates responsive and trusted environments for accelerating the deployment of services and applications over a single network. 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. High-performance networking is designed to provide fast, reliable, and secure access to applications and services at scale. We offer a high-performance network infrastructure that includes IP routing, Ethernet switching, security and application acceleration solutions, as well as partnerships designed to extend the value of the network and worldwide services and support designed to optimize customer investments.

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Over the first three quarters of 2010, the global economy continued to recover, yet the pace and trajectory of that recovery varied by geography. In this economic climate, we experienced an increase in demand for our products and services due to the growing demand for networking, as more traffic is being carried over the internet, computing is being centralized in massive data centers, and more people in businesses rely on digital devices connected to the network. This demand improved the purchasing behavior of our customers across all regions for enterprise and among service providers in Europe, Middle East, and Africa (EMEA) year-over-year. In the three and nine months ended September 30, 2010, we continued to invest in key research and development (R&D) projects that we believe will lead to future growth and remained focused on containing costs and allocating resources effectively.

Strategically, we are making progress toward our vision of the New Network by expanding our portfolio of products and solutions and aligning those products with mobile internet and cloud computing market trends. During the first three quarters of 2010, we continued to deliver new and innovative, high-performance network infrastructure solutions. We also expanded our portfolio of offerings for the enterprise market to provide a comprehensive portfolio of routing, switching, and security products that are running on Junos®. We launched our next generation data center architecture named 3-2-1, that enables customers to connect large numbers of data center servers and storage devices in a way that we believe improves the economics and the performance of these massive data centers. We announced and began shipping the EX4500, a data center switch that can leverage our Virtual Chassis technology to create a data center fabric across multiple networking devices and can offer up to 48 10-gigabit Ethernet (10GbE) ports. We began shipping the new EX2200 line of fixed-configuration managed Ethernet switches that offers a plug-and-play solution that addresses access connectivity requirements of high performance businesses. We also announced and began shipping the EX8200-40XS line card that enables our modular switch EX8200 to deliver 40 10GbE ports per line card and the MX80 3D Universal Edge Router, powered by the Junos Trio chipset and designed for both service provider and enterprise deployments. Additionally, we announced our latest fabric chipset that will enable customers to upgrade their existing T-series core routers.

In the area of mobility, we announced and began shipping Junos Pulse, a downloadable client software for secure connections across mobile devices including notebooks, netbooks, smartphones, and tablets as well as non-mobile devices to a broad range of corporate applications for a better, simpler experience for users. Additionally, we announced several new and expanded mobility partnerships intended to deliver software and solutions for mobile operators and improve experience and economics of their networks.

In addition to our infrastructure and mobility products, we announced four new applications that will enable IT managers to orchestrate the automation and security of networks from a single user-oriented management interface: (i) Juniper Virtual Control, a Junos Space-based application to help data center customers manage their Juniper physical switches and VMware virtual switches; (ii) Juniper Ethernet Design, a unified Ethernet management application that enables the data center or campus network to dial up or down as needed in response to the needs of applications and users; (iii) Juniper Security Design, a software application that allows point-and-click turn-up of both security devices and services; and (iv) Juniper Service Insight, a software application for proactive detection, diagnosis, and resolution of network performance issues.

In April 2010, we completed our acquisition of Ankeena Networks, Inc. (Ankeena), a privately-held company, which gives us video delivery capabilities that optimize web-based video delivery, provides key components of a content delivery network architecture/solution, improve consumers' online video experience, and reduces service provider and carrier service provider infrastructure costs for providing web-based video. Additionally, in July 2010, we completed our acquisition of SMobile Systems, Inc. (SMobile), a privately-held software company, which will allow us to extend our security focus through integration of SMobile's product portfolio with Junos Pulse.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. We base our estimates and assumptions on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances to determine the carrying values of assets and liabilities that are not readily apparent from other sources. Note 2, *Summary of Significant Accounting Policies*, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly

Report on Form 10-Q, describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements. The critical accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the condensed consolidated financial statements and actual results could differ materially from the amounts reported based on these policies. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

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

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

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

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

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

We adopted Accounting Standards Update (ASU) No. 2009-13, Topic 605 *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13) and ASU No. 2009-14, Topic 985 *Certain Revenue Arrangements That Include Software Elements* (ASU 2009-14) on a prospective basis as of the beginning of fiscal 2010 for new and materially modified arrangements originating after December 31, 2009. Under the new standards, we allocate the total arrangement consideration to each separable element of an arrangement based on the relative selling price of each element. Arrangement consideration allocated to undelivered elements is deferred until delivery.

For fiscal 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple elements, and software and non-software components that function together to deliver the tangible products essential functionality, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on our vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition.

VSOE is based on the price charged when the element is sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating largely interchangeable competitor products or services in stand-alone sales to similarly situated customers. However, as our products contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors products selling prices are on a stand-alone basis, we are not typically able to determine TPE. When determining the best estimate of selling price, we apply management judgment by considering multiple factors including, but not limited to pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies and industry technology lifecycles.

For transactions initiated prior to January 1, 2010, revenue for arrangements with multiple elements, such as sales of products that include services, is allocated to each element using the residual method based on the VSOE of fair value of the undelivered items pursuant to Accounting Standards Codification (ASC) Topic 985-605, *Software Revenue Recognition*. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of fair value of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

As a result of the adoption of ASU 2009-13 and ASU 2009-14, net revenues for the three and nine months ended September 30, 2010, were approximately \$50 million and \$128 million higher than the net revenues that would have been recorded under the previous accounting rules. The increase in revenues was due to recognition of revenue for products booked and shipped during these periods which consisted primarily of \$31 million and \$91 million for the three and nine month periods ended September 30, 2010, respectively, related to undelivered product commitments for which we were unable to demonstrate fair value pursuant to the previous accounting standards. The remainder of

the increase in revenue for the three and nine month periods was due to products sold into multiple-year service arrangements which were recognized ratably under the previous accounting standards and for the change in our allocation methodology from the residual method to the relative selling price method as prescribed by ASU 2009-13.

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We cannot reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary depending on the nature and volume of new or materially modified arrangements in any given period as well as on changes in our business practices. However, as ASU 2009-13 and ASU 2009-14 would allow us to recognize revenue for the portion allocated to delivered items in multiple element arrangements and defer revenue for only the portion allocated to the undelivered items, we expect that the magnitude of deferrals related to undelivered product commitments and other items, for which we previously would not have been able to establish VSOE, will gradually decrease over time.

We account for multiple agreements with a single customer as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement. Our ability to recognize revenue in the future may be affected if actual selling prices are significantly less than fair value. In addition, our ability to recognize revenue in the future could be impacted by conditions imposed by our customers.

For sales to direct end-users, value-added resellers, and original equipment manufacturers (OEM) partners, we recognize product revenue upon transfer of title and risk of loss, which is generally upon shipment. It is our practice to identify an end-user prior to shipment to a value-added reseller. For our end-users and value-added resellers, there are no significant obligations for future performance such as rights of return or pricing credits. Our agreements with OEM partners may allow future rights of returns. Additionally, a portion of our sales are made through distributors under agreements allowing for pricing credits or rights of return. We recognize product revenue on sales made through these distributors upon sell-through as reported to us by the distributors. Deferred revenue on shipments to distributors reflects the effects of distributor pricing credits and the amount of gross margin expected to be realized upon sell-through. Deferred revenue is recorded net of the related product costs of revenue.

We record reductions to revenue for estimated product returns and pricing adjustments, such as rebates and price protection, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns and price protection credits, specific criteria included in rebate agreements, and other factors known at the time. Should actual product returns or pricing adjustments differ from our estimates, additional reductions to revenue may be required. In addition, we report revenue net of sales taxes.

Service revenues include revenue from maintenance, training, and professional services. Maintenance is offered under renewable contracts. Revenue from maintenance service contracts is deferred and recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as the services are completed or ratably over the contractual period, which is generally one year or less. We sell certain interests in accounts receivable on a non-recourse basis as part of a customer financing arrangement primarily with one major financing company. We record cash received under this arrangement in advance of revenue recognition as short-term debt.

Contract Manufacturer Liabilities. We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturers, and a significant portion of our cost of revenues consists of payments to them. Our independent contract manufacturers manufacture our products primarily in China, Malaysia, Mexico, and the U.S. We have employees in our manufacturing and operations organization who manage relationships with our independent contract manufacturers, manage our supply chain, and monitor product testing and quality. We generally do not own the components and title to products transfers from our independent contract manufacturers to us and immediately to our customers upon shipment. Our independent contract manufacturers produce our products using design specifications, quality assurance programs, and standards that we establish, and they procure components and manufacture our products based on our demand forecasts. These forecasts are our estimates of future demand for our products, based upon historical trends and analysis from our sales and marketing organizations, adjusted for overall market conditions. We establish a provision for inventory, carrying costs, and obsolete material exposures for excess components purchased based on historical trends. If the actual component usage and product demand are significantly lower than forecasted, which may be caused by factors outside of our control, we may incur charges for excess components, which could have an adverse impact on our gross margins and profitability. Supply chain management remains an area of focus as we balance the risk of material obsolescence and supply chain flexibility in order to reduce lead times.

Warranty Costs. We generally offer a one-year warranty on all of our hardware products and a 90-day warranty on the media that contains the software embedded in the products. We accrue for warranty costs as part of our cost of sales based on associated material costs, labor costs for customer support, and overhead at the time revenue is recognized. Material cost is estimated primarily based upon the historical costs to repair or replace product returns within the warranty period.

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Technical support labor and overhead cost are estimated primarily based upon historical trends in the cost to support the customer cases within the warranty period. Although we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, use of materials, technical labor costs, and associated overhead incurred. Should actual product failure rates, use of materials, or service delivery costs differ from our estimates, we may incur additional warranty costs, which could reduce gross margin.

Goodwill and Purchased Intangible Assets. We make significant estimates and assumptions when evaluating impairment of goodwill and other intangible assets on an ongoing basis, as well as when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) future declines in our operating results, (ii) a sustained decline in our market capitalization, (iii) significant slowdown in the worldwide economy or the networking industry, or (iv) failure to meet our forecasted operating results. We evaluate these assets on an annual basis as of November 1 or more frequently if we believe impairment indicators exist. The process of evaluating the potential impairment of goodwill and intangible assets is subjective and requires significant judgment at many points during the analysis. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income and the market approaches. Under the income approach, we calculate fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate fair value of our reporting units based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the fair value of the reporting unit does not exceed the carrying value of the net assets assigned to the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. When the carrying value of a reporting unit's goodwill exceeds its implied fair value, we record an impairment loss equal to the difference. Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate and the impairment loss recognized is the amount by which the carrying amount of the asset exceeds its fair value. We assess the recoverability of our intangible assets by determining whether the unamortized balances are greater than the sum of undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows. The estimates used are consistent with the plans and estimates that we use to manage our business. If our actual results or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Share-Based Compensation. We recognize share-based compensation expense for all share-based payment awards including employee stock options, restricted stock units (RSUs), performance share awards (PSAs), and purchases under our Employee Stock Purchase Plan in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation* (FASB ASC Topic 718). Share-based compensation expense for expected-to-vest share-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

We utilize the Black-Scholes-Merton (BSM) option-pricing model in order to determine the fair value of stock options. The BSM model requires various highly subjective assumptions including volatility, expected option life, and risk-free interest rate. The expected volatility is based on the implied volatility of market traded options on our common stock, adjusted for other relevant factors including historical volatility of our common stock over the most recent period commensurate with the estimated expected life of our stock options. The expected life of an award is based on historical experience, the terms and conditions of the stock awards granted to employees, as well as the potential effect from options that have not been exercised at the time. We determine the fair value of RSUs and PSAs based on the closing market price of our common stock on the grant date. In addition, we estimate stock compensation expense for our PSAs based on the vesting criteria and only recognize expense for the portions of

such awards for which annual targets have been set.

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

Income Taxes. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We regularly assess the likelihood that our deferred tax assets

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will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in FASB ASC Topic, *Income Taxes* (FASB ASC Topic 740). To the extent that we believe any amounts are not more likely than not to be realized, we record a valuation allowance to reduce our deferred tax assets. We believe it is more likely than not that future income from the reversal of the deferred tax liabilities and forecasted income will be sufficient to fully recover the remaining deferred tax assets. In the event we determine that all or part of the net deferred tax assets are not realizable in the future, an adjustment to the valuation allowance is charged to earnings in the period such determination is made. Similarly, if we subsequently realize deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance is reversed, resulting in an adjustment to earnings in the period such determination is made. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize and measure potential liabilities based upon our estimate of whether, and the extent to which, additional taxes will be due.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding effect to the provision for income taxes in the period in which such determination is made. Significant judgment is also required in evaluating our uncertain tax positions under FASB ASC Topic 740 and determining our provision for income taxes. Although we believe our reserves under FASB ASC Topic 740 are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made as it was during the first quarter of 2010, when we recorded a non-recurring income tax benefit as a result of a taxpayer favorable federal appellate court ruling in *Xilinx, Inc. v. Commissioner*. The provision for income taxes includes the effect of reserves under FASB ASC Topic 740 and any changes to the reserves that are considered appropriate, as well as the related net interest and penalties, if applicable.

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

From time to time, we are involved in disputes, litigation, and other legal actions. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation, and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require us to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, our business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, which could result in the need to adjust our liability and record additional expenses. For a discussion of current litigation, please see Note 15, *Commitments and Contingencies*, under the heading *Legal Proceedings* in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

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

Table of Contents**Results of Operations**

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|-----------------------------------|----------------------------------|--------------|--------------|-------------|---------------------------------|--------------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change | 2010 | 2009 | \$ Change | % Change |
| Net revenues: | | | | | | | | |
| Product | \$ 801.2 | \$ 634.1 | \$ 167.1 | 26% | \$ 2,296.4 | \$ 1,828.9 | \$ 467.5 | 26% |
| <i>Percentage of net revenues</i> | <i>79.1%</i> | <i>77.0%</i> | | | <i>79.1%</i> | <i>77.0%</i> | | |
| Service | 211.2 | 189.8 | 21.4 | 11% | 606.9 | 545.6 | 61.3 | 11% |
| <i>Percentage of net revenues</i> | <i>20.9%</i> | <i>23.0%</i> | | | <i>20.9%</i> | <i>23.0%</i> | | |
| Total net revenues | \$ 1,012.4 | \$ 823.9 | \$ 188.5 | 23% | \$ 2,903.3 | \$ 2,374.5 | \$ 528.8 | 22% |

Our net product revenues increased in the three and nine months ended September 30, 2010, compared to the same periods in 2009, primarily due to an increase in Infrastructure product sales to service provider and enterprise customers across all regions and Service Layer Technologies (SLT) product sales to enterprise customers across all regions. The increased revenue was the result of the improved macroeconomic environment as compared to the first three quarters of 2009. Our net service revenues increased in the three and nine months ended September 30, 2010, compared to the same period in 2009, primarily due to an increase in service and support sales to enterprise customers in the Americas and EMEA regions and to service provider customers in the EMEA and Asia Pacific (APAC) regions. The increase in service revenue was primarily driven by growth in the installed base and continued strength in service contract renewals.

Infrastructure Segment Revenues

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------------------------------|----------------------------------|--------------|--------------|-------------|---------------------------------|--------------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change | 2010 | 2009 | \$ Change | % Change |
| Net Infrastructure segment revenues: | | | | | | | | |
| Infrastructure product revenue | \$ 607.6 | \$ 472.0 | \$ 135.6 | 29% | \$ 1,753.9 | \$ 1,396.2 | \$ 357.7 | 26% |
| <i>Percentage of net revenues</i> | <i>60.0%</i> | <i>57.2%</i> | | | <i>60.4%</i> | <i>58.8%</i> | | |
| Infrastructure service revenue | 136.5 | 123.2 | 13.3 | 11% | 389.2 | 350.1 | 39.1 | 11% |
| <i>Percentage of net revenues</i> | <i>13.5%</i> | <i>15.0%</i> | | | <i>13.4%</i> | <i>14.7%</i> | | |
| Total Infrastructure segment revenues | \$ 744.1 | \$ 595.2 | \$ 148.9 | 25% | \$ 2,143.1 | \$ 1,746.3 | \$ 396.8 | 23% |
| | <i>73.5%</i> | <i>72.2%</i> | | | <i>73.8%</i> | <i>73.5%</i> | | |

*Percentage of net
revenues*

Infrastructure Product

During the three and nine months ended September 30, 2010, Infrastructure products revenue experienced growth in the enterprise and service provider markets across all regions. This increase was primarily attributable to revenue growth from our MX-series routers and EX-series switches.

We track Infrastructure chassis revenue units and ports shipped to analyze customer trends and identify areas of potential network growth. Most of our Infrastructure product platforms are modular, with the chassis serving as the base of the platform. Each modular chassis has a certain number of slots that are available to be populated with components we refer to as modules or interfaces. The modules are the components through which the platform receives incoming packets of data from a variety of transmission media. The physical connection between a transmission medium and a module is referred to as a port. The number

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of ports on a module varies widely depending on the functionality and throughput offered by the module. Chassis revenue units represent the number of chassis on which revenue was recognized during the period. The following table presents Infrastructure revenue units and ports shipped:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|--|----------------------------------|---------|----------------|-------------|---------------------------------|---------|----------------|-------------|
| | 2010 | 2009 | Unit Change | % Change | 2010 | 2009 | Unit Change | % Change |
| Infrastructure chassis revenue units (1) | 3,535 | 3,227 | 308 | 10% | 9,328 | 9,253 | 75 | 1% |
| Infrastructure ports shipped (1) | 141,846 | 109,749 | 32,097 | 29% | 378,844 | 317,260 | 61,584 | 19% |

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

Infrastructure port shipments increased in the three months ended September 30, 2010, compared to the same period in 2009, which was commensurate with the growth in chassis revenue units. In the nine months ended September 30, 2010, compared to the same period in 2009, the increase in Infrastructure port shipments was greater than chassis revenue units primarily due to an increase in the shipments of MX-series products, which generally contain a higher number of ports per chassis.

Infrastructure Service

A majority of our service revenue is earned from customers that purchase our products and enter into service contracts for support. The increase in Infrastructure service revenue for the three and nine months ended September 30, 2010, was primarily driven by the increased revenue from new product sales and strong service contract renewals. From a geographical and market perspective, the increase in Infrastructure service revenues was primarily due to an increase in the enterprise business across all regions and the service provider business in the EMEA and APAC regions. These increases were partially offset by a decrease in service revenue in the Americas service provider market.

SLT Segment Revenues

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|-----------------------------------|----------------------------------|----------|--------------|-------------|---------------------------------|----------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change | 2010 | 2009 | \$ Change | % Change |
| Net SLT segment revenues: | | | | | | | | |
| SLT product revenue | \$ 193.6 | \$ 162.1 | \$ 31.5 | 19% | \$ 542.5 | \$ 432.7 | \$ 109.8 | 25% |
| <i>Percentage of net revenues</i> | 19.1% | 19.7% | | | 18.7% | 18.2% | | |
| SLT service revenue | 74.7 | 66.6 | 8.1 | 12% | 217.7 | 195.5 | 22.2 | 11% |
| | 7.4% | 8.1% | | | 7.5% | 8.3% | | |

*Percentage of net
revenues*

| | | | | | | | | |
|-------------------------------|----------|----------|---------|-----|----------|----------|----------|-----|
| Total SLT segment revenues | \$ 268.3 | \$ 228.7 | \$ 39.6 | 17% | \$ 760.2 | \$ 628.2 | \$ 132.0 | 21% |
|-------------------------------|----------|----------|---------|-----|----------|----------|----------|-----|

*Percentage of net
revenues*

| | | | |
|-------|-------|-------|-------|
| 26.5% | 27.8% | 26.2% | 26.5% |
|-------|-------|-------|-------|

SLT Product

We experienced an increase in SLT product revenue in the three and nine months ended September 30, 2010, compared to the same periods in 2009, primarily due to an increase in revenue from our branch and high-end SRX service gateway products partially offset by declines in revenue generated by older branch and high-end firewall products. From a geographical and market perspective, during the three and nine months ended September 30, 2010, we experienced revenue growth in the enterprise market across all regions and in the Americas service provider market.

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The following table presents SLT revenue units recognized:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|-------------------|----------------------------------|--------|----------------|-------------|---------------------------------|---------|----------------|-------------|
| | 2010 | 2009 | Unit Change | % Change | 2010 | 2009 | Unit Change | % Change |
| SLT revenue units | 55,905 | 55,319 | 586 | 1% | 170,571 | 147,717 | 22,854 | 15% |

The year-over-year growth in SLT revenue units was less than the year-over-year growth in SLT product revenues in the three months ended September 30, 2010, compared to the same period in 2009, due to the transition from older branch and high-end firewall products to branch and high-end SRX service gateway products, which have a higher revenue per unit. In the nine months ended September 30, 2010, compared to the same period in 2009, the increase in SLT revenue units was commensurate with and due to year-over-year growth of SLT product revenue.

SLT Service

The increase in SLT service revenue for the three and nine months ended September 30, 2010, was primarily driven by the increased revenue from new product sales and strong service contract renewals. From a geographical and market perspective, the increase in SLT service revenues was primarily due to growth in both the enterprise and service provider markets across all regions.

Net Revenues by Geographic Region

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|-----------------------------------|----------------------------------|--------------|--------------|-------------|---------------------------------|--------------|--------------|-------------|
| | 2010 | 2009 | \$ Change | % Change | 2010 | 2009 | \$ Change | % Change |
| Americas: | | | | | | | | |
| United States | \$ 481.2 | \$ 380.3 | \$ 100.9 | 27% | \$ 1,368.0 | \$ 1,045.4 | \$ 322.6 | 31% |
| Other | 51.6 | 42.5 | 9.1 | 21% | 147.4 | 128.0 | 19.4 | 15% |
| Total Americas | 532.8 | 422.8 | 110.0 | 26% | 1,515.4 | 1,173.4 | 342.0 | 29% |
| <i>Percentage of net revenues</i> | <i>52.6%</i> | <i>51.3%</i> | | | <i>52.2%</i> | <i>49.4%</i> | | |
| Europe, Middle East, and Africa | 275.9 | 243.2 | 32.7 | 13% | 829.5 | 698.3 | 131.2 | 19% |
| <i>Percentage of net revenues</i> | <i>27.3%</i> | <i>29.5%</i> | | | <i>28.6%</i> | <i>29.4%</i> | | |
| Asia Pacific | 203.7 | 157.9 | 45.8 | 29% | 558.4 | 502.8 | 55.6 | 11% |
| <i>Percentage of net revenues</i> | <i>20.1%</i> | <i>19.2%</i> | | | <i>19.2%</i> | <i>21.2%</i> | | |
| Total | \$ 1,012.4 | \$ 823.9 | \$ 188.5 | 23% | \$ 2,903.3 | \$ 2,374.5 | \$ 528.8 | 22% |

Net revenues in the Americas region increased in absolute dollars and as a percentage of total net revenues in the three and nine months ended September 30, 2010, compared