JUNIPER NETWORKS INC
Form 10-Q
August 08, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2011
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 [X] No [ ]
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [X]	Accelerated Filer [ ]	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 [X]

There were approximately 532,976,000 shares of the Company's Common Stock, par value $0.00001, outstanding as of July 31, 2011.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues:				
Product	$891,428	$774,058	$1,768,868	$1,495,259
Service	229,116	204,242	453,288	395,659
Total net revenues	1,120,544	978,300	2,222,156	1,890,918
Cost of revenues:				
Product	292,391	231,752	558,137	454,133
Service	105,987	86,610	205,968	164,826
Total cost of revenues	398,378	318,362	764,105	618,959
Gross margin	722,166	659,938	1,458,051	1,271,959
Operating expenses:				
Research and development	257,250	224,768	519,229	431,762
Sales and marketing	246,635	202,303	492,926	394,678
General and administrative	44,260	45,880	89,184	89,018
Amortization of purchased intangible assets	1,332	1,204	2,876	2,341
Restructuring	(916)	264	(1,263)	8,369
Acquisition-related charges	2,685	541	6,786	541
Total operating expenses	551,246	474,960	1,109,738	926,709
Operating income	170,920	184,978	348,313	345,250
Other (expense) income, net	(13,688)	4,065	(20,150)	5,524
Income before income taxes and noncontrolling interest	157,232	189,043	328,163	350,774
Income tax provision	41,714	58,700	82,985	55,821
Consolidated net income	115,518	130,343	245,178	294,953
Adjust for net loss (income) attributable to noncontrolling interest	42	168	132	(1,327)
Net income attributable to Juniper Networks	$115,560	$130,511	$245,310	$293,626
Net income per share attributable to Juniper Networks common stockholders:				
Basic	$0.22	$0.25	$0.46	$0.56
Diluted	$0.21	$0.24	$0.45	$0.55
Shares used in computing net income per share:				
Basic	532,909	524,463	531,827	522,812
Diluted	546,452	538,947	547,729	537,989

See accompanying Notes to Condensed Consolidated Financial Statements

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

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$2,838,066	$1,811,887
Short-term investments	631,781	474,514
Accounts receivable, net of allowances	488,037	596,622
Deferred tax assets, net	152,858	161,535
Prepaid expenses and other current assets	175,201	169,812
Total current assets	4,285,943	3,214,370
Property and equipment, net	544,389	493,881
Long-term investments	750,603	535,178
Restricted cash	93,173	119,346
Purchased intangible assets, net	136,736	121,803
Goodwill	3,927,883	3,927,807
Other long-term assets	54,390	55,466
Total assets	$9,793,117	$8,467,851
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$250,068	$292,270
Accrued compensation	216,490	256,746
Accrued warranty	38,066	35,931
Deferred revenue	707,422	660,264
Income taxes payable	32,248	25,000
Other accrued liabilities	185,054	201,765
Total current liabilities	1,429,348	1,471,976
Long-term debt	998,960	—
Long-term deferred revenue	222,802	224,165
Long-term income taxes payable	106,261	103,823
Other long-term liabilities	73,816	59,087
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; 532,524 shares and 525,378 shares issued and outstanding at June 30, 2011, and December 31, 2010, respectively	5	5
Additional paid-in capital	10,041,418	9,717,783
Accumulated other comprehensive income (loss)	10,770	(1,251)
Accumulated deficit	(3,090,731)	(3,108,337)
Total Juniper Networks stockholders' equity	6,961,462	6,608,200
Noncontrolling interest	468	600
Total equity	6,961,930	6,608,800
Total liabilities and equity	$9,793,117	$8,467,851

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Consolidated net income	$245,178	$294,953
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation and amortization	82,649	72,748
Non-cash portion of share-based compensation	106,243	85,164
Deferred income taxes	8,677	(25,594)
Gain on equity investments	—	(3,232)
Excess tax benefits from share-based compensation	(43,331)	(28,287)
Amortization of debt issuance costs	273	—
Changes in operating assets and liabilities:		
Accounts receivable, net	107,982	67,168
Prepaid expenses and other assets	6,408	(15,712)
Accounts payable	(34,051)	(6,331)
Accrued compensation	(38,756)	29,977
Accrued litigation settlements	—	(169,330)
Income tax payable	51,220	(683)
Other accrued liabilities	19,670	(4,987)
Deferred revenue	45,795	14,035
Net cash provided by operating activities	557,957	309,889
Cash flows from investing activities:		
Purchases of property and equipment, net	(115,941)	(83,157)
Purchases of trading investments	(3,127)	(1,690)
Purchases of available-for-sale investments	(1,293,670)	(932,004)
Proceeds from sales of available-for-sale investments	685,258	354,890
Proceeds from maturities of available-for-sale investments	238,000	557,363
Payment for business acquisition, net of cash and cash equivalents acquired	(31,073)	(64,215)
Changes in restricted cash	(1,236)	(12,296)
Purchases of privately-held and other equity investments, net	(8,643)	(727)
Net cash used in investing activities	(530,432)	(181,836)
Cash flows from financing activities:		
Proceeds from issuance of common stock	303,874	176,662
Purchases and retirement of common stock	(355,171)	(253,672)
Issuance of long-term debt, net	991,556	—
Change in customer financing arrangements	15,064	(20,967)
Excess tax benefit from share-based compensation	43,331	28,287
Return of capital to noncontrolling interest	—	(3,000)
Net cash provided by (used in) financing activities	998,654	(72,690)
Net increase in cash and cash equivalents	1,026,179	55,363
Cash and cash equivalents at beginning of period	1,811,887	1,604,723

Cash and cash equivalents at end of period	$2,838,066	$1,660,086

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of Juniper Networks, Inc. (“Juniper Networks” or the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information as well as the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Condensed Consolidated Balance Sheet as of December 31, 2010, is derived from the December 31, 2010, audited consolidated 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 six months ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, 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, 2010.

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

As of June 30, 2011, 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. Effective July 2011, NSN and the Company have agreed to cease operation of and terminate the joint venture. The termination of this joint venture will not have a material effect on the Company's financial position or results of operations.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Topic 220 - Presentation of Comprehensive Income (“ASU 2011-05”), which requires an entity to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for fiscal years and interim periods, beginning after December 15, 2011. The Company's adoption of ASU 2011-05 will not have an impact on its consolidated results of operations or financial condition.

In May 2011, the FASB issued ASU No. 2011-04, Topic 820 - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”), which amends current fair value measurement and disclosure guidance to converge with International Financial Reporting Standards ("IFRS") and provides increased transparency around valuation inputs and investment categorization. This guidance is effective for fiscal years and interim periods, beginning after December 15, 2011. Early application by public companies is not permitted. The Company's adoption of ASU 2011-04 is not expected to have an impact on its consolidated results of operations or financial condition.

Note 3. Business Combinations

The Company's consolidated financial statements include the operating results of acquired businesses from the date of each acquisition. Pro forma results of operations for these acquisitions have not been presented as the financial impact to the Company's consolidated results of operations, both individually and in aggregate, is not material. Additional information existing as of the acquisition dates but unknown to the Company may become known during the remainder of the measurement period, not to exceed 12 months from the acquisition date, which may result in changes to the amounts and allocations recorded.

In the first quarter of 2011, the Company completed two business combinations for cash of approximately $30.5 million. There were no acquisitions during the second quarter of 2011. Total purchase consideration for these acquisitions was allocated as follows (in millions):

	2011 Acquisitions
Net tangible assets acquired	$1.7
Intangible assets acquired	28.4
Goodwill	0.4
Total	$30.5

The goodwill recognized is attributable primarily to expected synergies. None of the goodwill is deductible for U.S. federal income tax purposes.

The following table presents details of the intangible assets acquired through the business combinations completed in the first quarter of 2011 (in millions, except years):

	2011 Acquisitions	
	Estimated Useful Life (In Years)	Amount
Existing or Core technology	10	$21.9
Support agreements and related relationships	4	5.1
Patents	5	1.4
Total		$28.4

The Company recognized $4.2 million and $9.3 million of acquisition-related costs in the three and six months ended June 30, 2011, respectively, and $0.5 million in the three and six months ended June 30, 2010. These costs were expensed in the period incurred and reported in the Company's consolidated statement of operations within cost of revenues and operating expense as acquisition-related charges.

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 the 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, employee stock purchase plan, vesting of restricted stock units (“RSUs”), and vesting of performance share awards (“PSAs”).

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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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net income attributable to Juniper Networks	$115.6	$130.5	$245.3	$293.6
Denominator:				
Weighted-average shares used to compute basic net income per share	532.9	524.5	531.8	522.8
Effect of dilutive securities:				
Employee stock awards	13.6	14.4	15.9	15.2
Weighted-average shares used to compute diluted net income per share	546.5	538.9	547.7	538.0
Net income per share attributable to Juniper Networks common stockholders:				
Basic	$0.22	$0.25	$0.46	$0.56
Diluted	$0.21	$0.24	$0.45	$0.55

Employee stock options, RSUs, and PSAs covering approximately 13.5 million and 44.8 million shares of the Company's common stock in the three and six months ended June 30, 2011, respectively, and 22.0 million and 22.4 million shares for the three and six months ended June 30, 2010, respectively, were outstanding, but were not included in the computation of diluted earnings per share. The Company excludes outstanding stock options with exercise prices that are greater than the average market price and RSUs with fair values 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.

Note 5. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

	As of June 30, 2011	December 31, 2010
Cash:		
Demand deposits	$531.6	$413.0
Time deposits	551.0	273.3
Total cash	1,082.6	686.3
Cash equivalents:		
U.S. government securities	—	76.7
Government-sponsored enterprise obligations	21.0	5.0
Commercial paper	—	4.0

Money market funds	1,734.5	1,039.9
Total cash equivalents	1,755.5	1,125.6
Total cash and cash equivalents	$2,838.1	$1,811.9

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

Investments in Available-for-Sale and Trading Securities

The following table summarizes the Company's unrealized gains and losses, and fair value of investments designated as available-for-sale and trading securities, as of June 30, 2011, and December 31, 2010 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of June 30, 2011:				
Fixed income securities:				
U.S. government securities	$395.2	$0.1	$—	$395.3
Government-sponsored enterprise obligations	327.0	0.4	(0.1)	327.3
Foreign government debt securities	10.0	0.1	—	10.1
Certificates of deposit	44.3	—	—	44.3
Commercial paper	16.0	—	—	16.0
Asset-backed securities	110.8	0.1	—	110.9
Corporate debt securities	466.1	1.2	(0.1)	467.2
Total fixed income securities	1,369.4	1.9	(0.2)	1,371.1
Total available-for-sale securities	1,369.4	1.9	(0.2)	1,371.1
Trading securities (1)	11.3	—	—	11.3
Total	$1,380.7	$1.9	$(0.2)	$1,382.4
Reported as:				
Short-term investments	$631.4	$0.4	$—	$631.8
Long-term investments	749.3	1.5	(0.2)	750.6
Total	$1,380.7	$1.9	$(0.2)	$1,382.4

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2010:				
Fixed income securities:				
U.S. government securities	$158.2	$0.2	$—	$158.4
Government-sponsored enterprise obligations	213.8	0.4	(0.2)	214.0
Foreign government debt securities	46.8	0.2	—	47.0
Certificates of deposit	20.9	0.1	—	21.0
Commercial paper	9.5	—	—	9.5
Asset-backed securities	90.1	—	(0.1)	90.0
Corporate debt securities	459.7	2.2	(0.2)	461.7
Total fixed income securities	999.0	3.1	(0.5)	1,001.6
Total available-for-sale securities	999.0	3.1	(0.5)	1,001.6
Trading securities (1)	8.1	—	—	8.1
Total	$1,007.1	$3.1	$(0.5)	$1,009.7
Reported as:				
Short-term investments	$473.6	$0.9	$—	$474.5
Long-term investments	533.5	2.2	(0.5)	535.2
Total	$1,007.1	$3.1	$(0.5)	$1,009.7

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

The following table presents the maturities of the Company's available-for-sale and trading securities, as of June 30, 2011 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	$620.1	$0.4	$—	$620.5
Due between one and five years	749.3	1.5	(0.2)	750.6
No contractual maturity	11.3	—	—	11.3
Total	$1,380.7	$1.9	$(0.2)	$1,382.4

The following tables present the Company's trading and available-for sale investments that are in an unrealized loss position as of June 30, 2011, and December 31, 2010 (in millions):

	Less than 12 Months		Total (2)	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011				
Corporate debt securities	$100.6	$(0.1)	$100.6	$(0.1)

U.S. government securities (1)	130.5	—	130.5	—
Government-sponsored enterprise obligations	153.7	(0.1)	153.7	(0.1)
Asset-backed securities (1)	47.8	—	47.8	—
Total	$432.6	$(0.2)	$432.6	$(0.2)

(1) Balance includes investments that were in an immaterial unrealized loss position as of June 30, 2011.
(2) No investments were in an unrealized loss position for greater than 12 months as of June 30, 2011.

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2010						
Corporate debt securities (1)	$104.3	$(0.2)	$28.8	$—	$133.1	$(0.2)
Government-sponsored enterprise obligations	57.8	(0.2)	—	—	57.8	(0.2)
Foreign government debt securities (1)	—	—	6.2	—	6.2	—
Commercial paper (1)	5.0	—	—	—	5.0	—
Asset-backed securities	54.7	(0.1)	—	—	54.7	(0.1)
Total	$221.8	$(0.5)	$35.0	$—	$256.8	$(0.5)

(1) Balance includes investments that were in an immaterial unrealized loss position as of December 31, 2010.

The Company had 84 and 73 investments in unrealized loss positions as of June 30, 2011, and December 31, 2010, respectively. The gross unrealized losses related to these investments were primarily due to changes in interest rates. For the fixed income securities that have unrealized losses, the Company determined that (i) it does not have the intent to sell any of these investments and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company did not consider these investments to be other-than-temporarily impaired as of June 30, 2011, and December 31, 2010. 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.

Restricted Cash

The Company classifies cash and investments as restricted cash on its condensed consolidated balance sheet for: (i) amounts held in escrow accounts, as required by certain acquisitions completed in 2005 and 2010; (ii) the India Gratuity Trust and Israel Retirement Trust, which cover statutory severance obligations in the event of termination of the Company's India and Israel employees, respectively; and (iii) the Directors and Officers ("D&O") indemnification trust. During the three and six months ended June 30, 2011, the Company distributed approximately $10.5 million and $27.7 million of restricted cash, mainly related to the 2010 acquisitions.

In connection with the 2010 acquisition of Ankeena Networks, Inc. ("Ankeena"), the Company agreed to pay from escrow a total amount of $10.7 million, representing the cash value of unvested restricted shares of Ankeena common stock as of April 8, 2010, held by certain former Ankeena employees. Through June 30, 2011, the Company has released $7.0 million from escrow and expects to release the remaining $3.7 million from escrow over the next fifteen months as the restricted shares vest.

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

	As of June 30, 2011	December 31, 2010
Restricted cash:		

Demand deposits	$1.3	$1.7
Total restricted cash	1.3	1.7
Restricted investments:		
U.S. government securities	—	0.6
Corporate debt securities	2.1	2.7
Mutual funds	1.1	—
Money market funds	88.7	114.3
Total restricted investments	91.9	117.6
Total restricted cash and investments	$93.2	$119.3

As of June 30, 2011, and December 31, 2010, the unrealized gains and losses related to restricted investments were immaterial.

Other Investments

The Company's minority equity investments in privately-held 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 equity investments for any impairment if the fair value goes below the carrying value of the respective assets.

As of June 30, 2011, and December 31, 2010, the carrying values of the Company’s privately-held and other equity investments of $29.6 million and $22.1 million, respectively, were included in other long-term assets in the condensed consolidated balance sheets. During the three and six months ended June 30, 2011, the Company invested $2.7 million and $8.7 million, respectively, in privately-held and other equity investments. During the three and six months ended June 30, 2010, the Company invested $0.5 million and $5.2 million in privately-held and other equity investments, respectively, and recognized a gain of $3.2 million from its minority equity investments in Ankeena upon the acquisition of Ankeena. There were no losses from the Company's privately-held and other equity investments during the three and six months ended June 30, 2011, and 2010.

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.

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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 as reported in the condensed consolidated balance sheets (in millions):

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Available-for-sale debt securities:				
U.S. government securities	$150.1	$245.2	$—	$395.3
Government-sponsored enterprise obligations	270.8	77.5	—	348.3
Foreign government debt securities	—	10.1	—	10.1
Commercial paper	—	16.0	—	16.0
Corporate debt securities (1)	—	469.3	—	469.3
Certificate of deposit	—	44.3	—	44.3
Asset-backed securities	—	110.9	—	110.9
Money market funds (2)	1,823.2	—	—	1,823.2
Total available-for-sale debt securities	2,244.1	973.3	—	3,217.4
Total available-for-sale securities	2,244.1	973.3	—	3,217.4
Trading securities:				
Mutual funds (3)	12.4	—	—	12.4
Total trading securities	12.4	—	—	12.4
Derivative assets:				
Foreign exchange contracts	—	2.3	—	2.3
Total derivative assets	—	2.3	—	2.3
Total assets measured at fair value	$2,256.5	$975.6	$—	$3,232.1

(1) Balance includes $2.1 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.
(2) Balance includes $88.7 million of restricted investments measured at fair market value, related to the Company's D&O trust.
(3) Balance includes $1.1 million of restricted investments measured at fair market value, related to the Company's India Gratuity Trust.

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total

Reported as:				
Cash equivalents	$1,734.5	$21.0	$—	$1,755.5
Short-term investments	139.6	492.2	—	631.8
Long-term investments	292.6	458.0	—	750.6
Restricted cash	89.8	2.1	—	91.9
Prepaid expenses and other current assets	—	2.3	—	2.3
Total assets measured at fair value	$2,256.5	$975.6	$—	$3,232.1

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

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Available-for-sale debt securities:				
U.S. government securities (1)	$54.9	$180.8	$—	$235.7
Government-sponsored enterprise obligations	208.9	10.1	—	219.0
Foreign government debt securities	21.0	26.0	—	47.0
Commercial paper	—	13.5	—	13.5
Corporate debt securities (2)	2.7	461.7	—	464.4
Certificate of deposit	—	21.0	—	21.0
Asset-backed securities	—	90.0	—	90.0
Money market funds (3)	1,154.2	—	—	1,154.2
Total available-for-sale debt securities	1,441.7	803.1	—	2,244.8
Total available-for-sale securities	1,441.7	803.1	—	2,244.8
Trading securities:				
Mutual funds	8.1	—	—	8.1
Total trading securities	8.1	—	—	8.1
Derivative assets:				
Foreign exchange contracts	—	0.4	—	0.4
Total derivative assets	—	0.4	—	0.4
Total assets measured at fair value	$1,449.8	$803.5	$—	$2,253.3

(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 $114.3 million of restricted investments measured at fair market value, related to the Company's D&O trust.

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Reported as:				

Cash equivalents	$1,039.9	$85.7	$—	$1,125.6
Short-term investments	150.7	323.8	—	474.5
Long-term investments	142.2	393.0	—	535.2
Restricted cash	117.0	0.6	—	117.6
Prepaid expenses and other current assets	—	0.4	—	0.4
Total assets measured at fair value	$1,449.8	$803.5	$—	$2,253.3

As of June 30, 2011, and December 31, 2010, the Company had $0.1 million and $2.6 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 six months ended June 30, 2011, and 2010 the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

As of June 30, 2011, and December 31, 2010, the Company had no material assets or liabilities measured at fair value on a nonrecurring basis.

Assets and Liabilities Not Measured at Fair Value

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

Note 7. Goodwill and Purchased Intangible Assets

Goodwill

The following table summarizes the Company's goodwill activities by segment in the six months ended June 30, 2011 (in millions):

	Infrastructure	SLT	Total
Balance as of January 1, 2011			
Goodwill	$1,643.4	$3,564.4	$5,207.8
Accumulated impairment losses	—	(1,280.0)	(1,280.0)
Carrying value at January 1, 2011	1,643.4	2,284.4	3,927.8
Adjustments to goodwill	(0.3)	—	(0.3)
Goodwill acquired during the six months ended June 30, 2011	0.4	—	0.4
Balance as of June 30, 2011			
Goodwill	1,643.5	3,564.4	5,207.9
Accumulated impairment losses	—	(1,280.0)	(1,280.0)
Carrying value at June 30, 2011	$1,643.5	$2,284.4	$3,927.9

The adjustments to goodwill during the six months ended June 30, 2011, were related to adjustments in net tangible assets assumed from certain businesses acquired in 2010. There were no impairments to goodwill during the three and six months ended June 30, 2011, and 2010.

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

Purchased Intangible Assets

Changes to the Company's purchased intangible assets were as follows (in millions):

	Gross	Accumulated Amortization	Net
As of June 30, 2011:			
Intangible assets with finite lives:			
Technologies and patents	$494.4	$(392.6)	$101.8
Other	91.5	(64.5)	27.0
Total intangible assets with finite lives	585.9	(457.1)	128.8
IPR&D with indefinite lives	7.9	—	7.9
Total purchased intangible assets	$593.8	$(457.1)	$136.7
As of December 31, 2010:			
Intangible assets with finite lives:			
Technologies and patents	$471.1	$(381.4)	$89.7
Other	86.4	(62.2)	24.2
Total intangible assets with finite lives	557.5	(443.6)	113.9
IPR&D with indefinite lives	7.9	—	7.9
Total purchased intangible assets	$565.4	$(443.6)	$121.8

Amortization of purchased intangible assets included in operating expenses and cost of product revenues totaled $6.8 million and $1.5 million for the three months ended June 30, 2011, and 2010, respectively, and $13.5 million and approximately $2.6 million for the six months ended June 30, 2011, and 2010, respectively. There were no impairment charges with respect to the purchased intangible assets in the three and six months ended June 30, 2011, and 2010.

During the six months ended June 30, 2011, $28.4 million of purchased intangible assets were added as a result of acquisitions completed during the first quarter of 2011. During the three and six months ended June 30, 2010, the Company added $12.2 million of purchased intangible assets as a result of acquisitions completed during 2010.

Acquired in-process research and development ("IPR&D") consists of existing research and development projects at the time of the acquisition. Projects that qualify as IPR&D assets represent those that have not yet reached technological feasibility and have no alternative future use. After initial recognition, acquired IPR&D assets are accounted for as indefinite-lived intangible assets. Development costs incurred after acquisition on acquired development projects are expensed as incurred. Upon completion of development, acquired IPR&D assets are considered amortizable finite-lived assets. If the IPR&D project is abandoned, the Company writes off the related purchased intangible asset in the period it is abandoned.

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

Years Ending December 31,	Amount
2011 (remaining six months)	$13.3
2012	26.4
2013	26.1

2014	24.3
2015	19.3
Thereafter	19.4
Total	$128.8

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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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Beginning balance	$38.3	$37.8	$35.9	$38.2
Provisions made during the period, net	12.4	12.1	27.7	24.2
Change in estimate	(2.1)	(0.1)	(2.9)	(0.6)
Actual costs incurred during the period	(10.5)	(11.5)	(22.6)	(23.5)
Ending balance	$38.1	$38.3	$38.1	$38.3

Deferred Revenue

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

	As of June 30, 2011	December 31, 2010
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$288.7	$294.1
Distributor inventory and other sell-through items	138.6	143.4
Deferred gross product revenue	427.3	437.5
Deferred cost of product revenue	(134.8)	(148.8)
Deferred product revenue, net	292.5	288.7
Deferred service revenue	637.7	595.7
Total	$930.2	$884.4
Reported as:		
Current	$707.4	$660.2
Long-term	222.8	224.2
Total	$930.2	$884.4

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 plan included restructuring of certain business functions that resulted in reductions of workforce and facilities. The Company adjusted its restructuring liability by $0.9 million and $1.3 million, in the three and six months ended June 30, 2011, respectively, primarily due to the lease termination of a restructured facility, and recorded $0.3 million and $8.4 million within restructuring in the condensed consolidated statements of operations during the three and six months ended June 30, 2010, respectively, in connection with the 2009 Restructuring Plan.

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

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

	Remaining Liability as of December 31, 2010	Charges	Cash payments	Adjustments	Remaining Liability as of June 30, 2011
Facilities	$7.7	$—	$(4.9)	$(1.3)	$1.5
Severance, contractual commitments, and other charges	0.2	—	—	—	0.2
Total	$7.9	$—	$(4.9)	$(1.3)	$1.7

Other Expense and Income, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest income	$2.6	$2.7	$5.0	$5.1
Interest expense	(15.2)	(2.0)	(21.6)	(3.6)
Other	(1.1)	3.4	(3.5)	4.0
Other (expense) income, net	$(13.7)	$4.1	$(20.1)	$5.5

Interest income primarily includes interest income from the Company’s cash, cash equivalents, and investments. Interest expense primarily includes interest expense from long-term debt and customer financing arrangements. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items.

Note 9. Financing

Long-Term Debt

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

	As of June 30, 2011	
	Amount	Effective Interest Rate
Senior notes:		
3.10% fixed-rate notes, due 2016	$300.0	3.12%
4.60% fixed-rate notes, due 2021	300.0	4.63%
5.95% fixed-rate notes, due 2041	400.0	6.01%
Total senior notes	1,000.0	
Unaccreted discount	(1.0)	

Total	$999.0

In March 2011, the Company issued $300.0 million aggregate principal amount of 3.10% senior notes due 2016 (the "2016 notes"), $300.0 million aggregate principal amount of 4.60% senior notes due 2021 (the "2021 notes"), and $400.0 million aggregate principal amount of 5.95% senior notes due 2041 (the "2041 notes" and, together with the 2016 notes and the 2021 notes the "notes"). Interest on the notes is payable in cash semiannually. The Company may redeem the notes, at any time in whole or from time to time in part, subject to a make-whole premium, and, in the event of a change in control, the holders of the notes may require to the Company to repurchase for cash all or part of the notes at a purchase price equal to 101% of the aggregate principle amount, plus accrued and unpaid interest, if any. The indenture that governs the notes also contains various covenants, including limitations on the Company's ability to incur liens or enter into sale-leaseback transactions over certain dollar thresholds.

The effective rates for the notes include the interest on the notes, accretion of the discount, and amortization of issuance costs. At June 30, 2011, the estimated fair value of the notes included in long-term debt was approximately $1,025.3 million based on quoted market prices (Level 1). The Company had no such debt at December 31, 2010.

Customer Financing Arrangements

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

Pursuant to the financing arrangements for the sale of receivables, the Company sold net receivables of $224.2 million and $156.2 million during the three months ended June 30, 2011, and 2010, respectively, and $399.0 million and $282.4 million during the six months ended June 30, 2011, and 2010, respectively.

The Company received cash proceeds from the financing provider of $207.6 million and $137.6 million during the three months ended June 30, 2011, and 2010, respectively, and $401.9 million and $276.5 million during the six months ended June 30, 2011, and 2010, respectively. The amounts owed by the financing provider recorded as accounts receivable on the Company’s condensed consolidated balance sheets as of June 30, 2011, and December 31, 2010, was $116.4 million and $127.4 million, respectively.

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 June 30, 2011, and December 31, 2010, the estimated cash received from the financing provider not recognized as revenue from distributors was $64.2 million and $49.1 million, respectively.

Note 10. Derivative Instruments

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

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

	As of June 30, 2011	December 31, 2010
Cash flow hedges	$ 139.1	$ 110.4
Non-designated hedges	151.1	74.4
Total	$ 290.2	$ 184.8

Cash Flow Hedges

The Company uses foreign currency forward or option contracts to hedge certain forecasted foreign currency transactions relating to cost of services and operating expenses. The derivatives are intended to protect the U.S. Dollar equivalent of the Company's planned cost of services and operating expenses denominated in foreign currencies. These derivatives are designated as cash flow hedges. Execution of these cash flow hedge derivatives typically occurs every month with maturities of less than one year. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the cost of services or operating expense line item to which the hedged transaction relates. The Company records any ineffectiveness of the hedging instruments in interest and other income, net in its consolidated statements of operations. Cash flows from such hedges are classified as operating activities. All amounts within other comprehensive income (loss) are expected to be reclassified into 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 June 30, 2011, and December 31, 2010, was $2.3 million and $0.4 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 June 30, 2011, and December 31, 2010, was $0.1 million and $2.6 million, respectively.

During the three and six months ended June 30, 2011, the Company recognized a gain of $1.9 million and $7.1 million, respectively, in accumulated other comprehensive income for the effective portion of its derivative instruments and reclassified a gain of $1.7 million and $2.2 million, respectively, from other comprehensive income to operating expense in the condensed consolidated statements of operations. The Company recognized a loss of $2.9 million and $4.5 million, respectively, in accumulated other comprehensive loss for the effective portion of its derivative instruments and reclassified a loss of $2.6 million and $3.2 million, respectively, from other comprehensive loss to operating expense in the condensed consolidated statements of operations during the three and six months ended June 30, 2010.

The ineffective portion of the Company's derivative instruments recognized in its condensed consolidated statements of operations was $0.2 million and $0.5 million during the three and six months ended June 30, 2011, respectively, and nil during the three and six months ended June 30, 2010.

Non-Designated Hedges

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

During the three and six months ended June 30, 2011, the Company recognized a net gain on non-designated derivative instruments within other expense and income, net, on its condensed consolidated statements of operations of $0.4 million and $0.2 million, respectively. The Company recognized a loss of $1.0 million and $1.4 million on non-designated derivative instruments within other expense and income, net, on its condensed consolidated statements of operations during the three and six months ended June 30, 2010, 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 authorization was 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 and retired approximately 3.9 million shares of its common stock at an average price of $38.94 per share for an aggregate purchase price of $150.0 million during the three months ended June 30, 2011, and approximately 8.6 million shares of its common stock at an average price of $40.71 per share for an aggregate purchase price of $350.2 million during the six months ended June 30, 2011, under its 2010 Stock Repurchase Program. The Company repurchased and retired approximately 6.5 million shares of its common stock at an average price of $27.33 per share for an aggregate purchase price of $177.4 million during the three months ended June 30, 2010, and approximately 9.2 million shares of its common stock at an average price of $27.24 for an aggregate purchase price of $251.8 million during the six months ended June 30, 2010, under its 2008 Stock Repurchase Program. There were no remaining authorized funds under the 2008 Stock Repurchase Program and $404.8 million remaining authorized funds under the 2010 Stock Repurchase Program as of June 30, 2011.

Comprehensive Income Attributable to Juniper Networks

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Consolidated net income	$115.5	$130.3	$245.2	$295.0
Other comprehensive income (loss), net of tax:				
Change in unrealized (loss) gain on investments, net of tax of nil	(1.5)	(1.3)	2.9	(1.7)
Change in foreign currency translation adjustment, net of tax of nil	2.6	(4.8)	9.2	(7.5)
Total other comprehensive income (loss), net of tax	1.1	(6.1)	12.1	(9.2)
Consolidated comprehensive income	116.6	124.2	257.3	285.8
Adjust for comprehensive loss (income) attributable to noncontrolling interest, net of tax	0.1	0.2	0.1	(1.3)
Comprehensive income attributable to Juniper Networks	$116.7	$124.4	$257.4	$284.5

The following table summarizes equity activity for the three and six months ended June 30, 2011 (in millions):

	Common Stock & Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interest	Total Equity
Balance at December 31, 2010	$9,717.8	$ (1.3)	$ (3,108.3)	$0.6	$6,608.8
Consolidated net income	—	—	129.8	(0.1)	129.7
Change in unrealized gain on investments, net of tax of nil	—	4.4	—	—	4.4
Change in foreign currency translation adjustment, net of tax of nil	—	6.6	—	—	6.6
Issuance of shares in connection with Employee Stock Purchase Plan	23.7	—	—	—	23.7
Exercise of stock options by employees	241.7	—	—	—	241.7
Repurchase and retirement of common stock	(70.3)	—	(129.9)	—	(200.2)
Repurchases related to net issuances	(1.8)	—	(3.1)	—	(4.9)
Share-based compensation expense	47.6	—	—	—	47.6
Adjustment related to tax benefit from employee stock option plans	39.4	—	—	—	39.4
Balance at March 31, 2011	9,998.1	9.7	(3,111.5)	0.5	6,896.8
Consolidated net income	—	—	115.6	(0.1)	115.5
Change in unrealized loss on investments, net of tax of nil	—	(1.5)	—	—	(1.5)
Change in foreign currency translation adjustment, net of tax of nil	—	2.6	—	—	2.6

Exercise of stock options by employees	37.9	—	—	—	37.9
Repurchase and retirement of common stock	(55.2)	—	(94.8)	—	(150.0)
Share-based compensation expense	58.6	—	—	—	58.6
Adjustment related to tax benefit from employee stock option plans	2.0	—	—	—	2.0
Balance at June 30, 2011	$10,041.4	$ 10.8	$ (3,090.7)	$0.4	$6,961.9

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

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

	Common Stock & Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interest	Total Equity
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 of tax of nil	—	(0.4)	—	—	(0.4)
Change in foreign currency translation adjustment, net of 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	101.2	—	—	—	101.2
Return of capital to noncontrolling interest	—	—	—	(2.0)	(2.0)
Repurchase and 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 of tax of nil	—	(1.3)	—	—	(1.3)
Change in foreign currency translation adjustment, net of tax of nil	—	(4.8)	—	—	(4.8)
Exercise of stock options by employees	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
Repurchase and 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

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, 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, subject to individual purchase limits of 6,000 shares in any twelve-month period or $25,000 worth of stock, determined at the fair market value of the shares at the time the stock purchase option is granted, in one calendar year.

The 2006 Plan, adopted and approved by the Company’s stockholders in May 2006, had an initial authorized share reserve of 64.5 million shares of common stock plus the addition of any shares subject to options under the 2000 Plan and the 1996 Plan that were outstanding as of May 18, 2006, and that subsequently expire unexercised, up to a maximum of an additional 75.0 million shares. In the second quarters of 2010 and 2011 the Company’s stockholders’ approved amendments to the 2006 Plan that increased the number of shares reserved for issuance thereby increasing the authorized share reserve by 30.0 million shares

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in May 2010 and 2011. As of June 30, 2011, the 2006 Plan had 59.0 million shares subject to currently outstanding equity awards and 42.6 million shares available for future issuance.

In connection with past acquisitions, the Company assumed stock option and RSU awards under the stock plans of the acquired companies. The Company exchanged those awards for Juniper Networks' stock options and RSUs. As of June 30, 2011, stock options and RSUs covering approximately 1.6 million shares of common stock were outstanding under awards assumed through the Company's past acquisitions.

Stock Option Activities

Since 2006, the Company has granted stock option awards that have a maximum contractual life of seven years from the date of grant. Prior to 2006, stock option awards generally had a ten-year contractual life from the date of grant. The following table summarizes the Company’s stock option activity and related information as of and for the six months ended June 30, 2011 (in millions, except for per share amounts and years):

	Outstanding Options				
	Number of Shares		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at January 1, 2011	49.4		$21.90		
Options granted	4.5		41.10		
Options canceled	(1.0	)	25.17		
Options exercised	(13.0	)	21.52		
Options expired	(0.2	)	48.40		
Balance at June 30, 2011	39.7		$23.98	4.2	$345.0
As of June 30, 2011:					
Vested or expected-to-vest options	37.3		$23.52	4.1	$334.6
Exercisable options	24.0		$21.05	3.3	$253.0

Aggregate intrinsic value represents the difference between the Company’s closing stock price on the last trading day of the period, which was $31.50 per share as of June 30, 2011, 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 $29.5 million and $240.9 million for the three and six months ended June 30, 2011, respectively. Total fair value of options vested for the three and six months ended June 30, 2011, was $18.6 million and $46.2 million, respectively.

Restricted Stock Units and Performance Share Awards Activities

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

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

The following table summarizes the Company’s RSU and PSA activity and related information as of and for the six months ended June 30, 2011 (in millions, except per share amounts and years):

	Outstanding RSUs and PSAs			
	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance at January 1, 2011	14.2	$25.94		
RSUs granted	4.2	39.76		
PSAs granted (1)	3.8	41.13		
RSUs vested	(1.3)	22.50		
PSAs vested	(0.6)	25.45		
RSUs canceled	(0.3)	29.56		
PSAs canceled	(0.7)	27.41		
Balance at June 30, 2011:	19.3	$32.04	1.9	$616.1
As of June 30, 2011:				
Vested and expected-to-vest RSUs and PSAs	16.4	$31.60	1.8	$516.0

(1) 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 1.8 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is 0 to 3.8 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 $23.89 in the six months ended June 30, 2011, and approximately 1.0 million shares of common stock at an average price of $21.11 per share in the six months ended June 30, 2010. There were no purchases under the 2008 Purchase plan in the three months ended June 30, 2011, and 2010.

As of June 30, 2011, approximately 4.6 million shares had been issued and 7.4 million shares remained available for future issuance under the 2008 Purchase Plan.

Shares Available for Grant

The following table presents the stock grant activity and the total number of shares available for grant under the 2006 Plan as of June 30, 2011 (in millions):

	Number of Shares
Balance at January 1, 2011	30.7

Additional authorized share reserve approved by stockholders	30.0	
RSUs and PSAs granted (1)	(16.9	)
Options granted	(4.5	)
RSUs and PSAs canceled (1)	2.1	
Options canceled (2)	1.0	
Options expired (2)	0.2	
Balance at June 30, 2011	42.6	

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

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

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Common Stock Reserved for Future Issuance

As of June 30, 2011, the Company had reserved an aggregate of approximately 109.0 million shares of common stock for future issuance under its equity incentive plans and the 2008 Purchase Plan.

Share-Based Compensation Expense

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

The assumptions used and the resulting estimates of fair value for employee stock options and the employee stock purchase plan during the three and six months ended June 30, 2011, and 2010 were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Employee Stock Options:				
Volatility factor	41% - 42%	33% - 41%	41% - 42%	33% - 41%
Risk-free interest rate	1.2% - 1.7%	1.7% - 2.2%	1.2% - 1.9%	1.7% - 2.2%
Expected life (years)	4.1	4.3	4.1	4.3
Dividend yield	—	—	—	—
Fair value per share	$10.12- $13.65	$7.83 - $30.36	$10.12- $15.22	$7.83 - $30.36
Employee Stock Purchase Plan:				
Volatility factor	33%	35%	33%	35%
Risk-free interest rate	1.8%	1.7%	1.8%	1.7%
Expected life (years)	0.5	0.5	0.5	0.5
Dividend yield	—	—	—	—
Weighted-average fair value per share	$9.07	$6.19	$9.07	$6.19

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

The Company's share-based compensation expense associated with stock options, employee stock purchases, RSUs, and PSAs is recorded in the following cost and expense categories for the three and six months ended June 30, 2011, and 2010 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of revenues - Product	$1.2	$1.0	$2.2	$2.1
Cost of revenues - Service	4.4	3.2	8.4	6.7
Research and development	26.6	18.7	48.9	35.7
Sales and marketing	19.2	13.9	32.4	25.6
General and administrative	8.7	7.8	17.3	15.1
Total	$60.1	$44.6	$109.2	$85.2

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Options	$19.9	$20.8	$39.6	$40.9
Assumed options	—	0.6	—	0.6
RSUs and PSAs	34.5	19.2	58.0	35.5
Assumed RSUs	—	0.5	—	0.5
Employee stock purchase plan	4.2	2.2	8.6	6.4
Other acquisition-related compensation	1.5	1.3	3.0	1.3
Total	$60.1	$44.6	$109.2	$85.2

As of June 30, 2011, approximately $121.5 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options will be recognized over a weighted-average period of approximately 2.5 years while approximately $277.4 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 $4.7 million and $9.8 million in the three and six months ended June 30, 2011, respectively, and $3.5 million and $7.5 million in the three and six months ended June 30, 2010, respectively.

Deferred Compensation Plan

The Company's non-qualified deferred compensation ("NQDC") plan is an unfunded and unsecured deferred compensation arrangement. Under the NQDC plan, officers and other senior employees may elect to defer a portion of their compensation and contribute such amounts to one or more investment funds. The NQDC plan assets are included within short-term investments, and offsetting obligations are included within accrued compensation 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 $11.3 million and $8.1 million as of June 30, 2011, and December 31, 2010, respectively. For additional information regarding the Company's NQDC, see Note 5, Cash, Cash Equivalents, and Investments.

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

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 Service Layer Technology ("SLT"). The Infrastructure segment consists of routing and switching products and services. Routing includes products and services from the E, M, MX, PTX, and T Series router families, QFabric, as well as network application platform, Junos Space. Switching primarily consists of products and services for EX Series and wireless local area network solutions. The SLT segment includes SRX services and vGW virtual gateways, Firewall virtual private network systems and appliances, secure socket layer virtual private network appliances, the J Series router product family, intrusion detection and prevention appliances, wide area network optimization platforms, and Junos Pulse.

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.

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues:				
Infrastructure:				
Routers	$761.5	$628.1	$1,510.5	$1,229.5
Switches	122.5	92.3	228.3	169.5
Total Infrastructure	884.0	720.4	1,738.8	1,399.0
SLT	236.5	257.9	483.4	491.9
Total net revenues	1,120.5	978.3	2,222.2	1,890.9
Segment operating income:				
Infrastructure	209.7	181.2	419.1	357.7
SLT	32.5	52.6	68.9	87.7
Total segment operating income	242.2	233.8	488.0	445.4
Amortization of purchased intangible assets (1)	(6.8)	(1.5)	(13.5)	(2.6)
Share-based compensation expense	(60.1)	(44.6)	(109.2)	(85.2)
Share-based payroll tax expense	(1.1)	(1.9)	(9.0)	(3.4)
Restructuring	0.9	(0.3)	1.3	(8.4)

Acquisition-related charges (2)	(4.2)	(0.5)	(9.3)	(0.5)
Total operating income	170.9	185.0	348.3	345.3
Other (expense) income, net	(13.7)	4.0	(20.1)	5.5
Income before income taxes and noncontrolling interest	$157.2	$189.0	$328.2	$350.8

(1) Amount includes amortization expense of purchased intangible assets in operating expenses and in cost of revenues.
(2) Amount includes acquisition-related costs in operating expenses and in cost of revenues.

Depreciation expense allocated to the Infrastructure segment was $26.9 million and $52.6 million in the three and six months ended June 30, 2011, respectively, and $26.4 million and $51.1 million in three and six months ended June 30, 2010, respectively. Depreciation expense allocated to the SLT segment was $8.2 million and $16.5 million in the three and six months ended June 30, 2011, respectively, and $9.6 million and $19.1 million in the three and six months ended June 30, 2010, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Americas:				
United States	$523.9	$439.9	$1,049.9	$886.8
Other	54.8	54.3	110.4	95.9
Total Americas	578.7	494.2	1,160.3	982.7
Europe, Middle East, and Africa	329.0	289.5	629.0	553.6
Asia Pacific	212.8	194.6	432.9	354.6
Total	$1,120.5	$978.3	$2,222.2	$1,890.9

During the three and six months ended June 30, 2011, no single customer accounted for 10% or more of net revenues. During the three months ended June 30, 2010, no single customer accounted for 10% or more of net revenues, and during the six months ended June 30, 2010, Verizon accounted for 10.7% of net revenues.

The Company tracks assets by physical location. The majority of the Company's assets, excluding cash and cash equivalents and investments, as of June 30, 2011, and December 31, 2010, were attributable to U.S. operations. As of June 30, 2011, and December 31, 2010, gross property and equipment held in the U.S., as a percentage of total property and equipment, was approximately 80%. 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 $41.7 million and $83.0 million for the three and six months ended June 30, 2011, or effective tax rates of 26.5% and 25.3%, respectively. The Company recorded a tax provision of $58.7 million and $55.8 million for the three and six months ended June 30, 2010, or effective tax rates of 31.0% and 16.0%, respectively.

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

The effective tax rate for the three months ended June 30, 2010, differs from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. The effective tax rate for the six months ended June 30, 2010, differs from the federal statutory rate of 35% primarily due to a $54.1 million income tax benefit resulting from a change in the Company's estimate of unrecognized tax benefits related to share-based compensation and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. The tax benefit for the three and six months ended June 30, 2010 was partially offset by charges for increases in the valuation allowance against the California deferred tax assets of approximately $2.7 million and $5.2 million, respectively.

The gross unrecognized tax benefits increased by approximately $2.2 million for the six months ended June 30, 2011.

The Company is currently under examination by the Internal Revenue Service ("IRS") for the 2004 through 2006 tax years, 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. 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 June 30, 2011.

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In May 2011, as part of the 2005 and 2006 IRS audit, the Company received a proposed adjustment related to its intercompany R&D cost sharing arrangement for the license of intangibles acquired in 2005. In 2009, as part of the 2004 IRS audit, the Company received a similar proposed adjustment related to the license of intangibles acquired in 2004. In 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 the Company's 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 $4.7 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 June 30, 2011 (in millions):

	Total	2011	2012	2013	2014	2015	Thereafter	Other
Operating leases	$342.1	$27.7	$51.4	$43.9	$58.1	$48.6	$112.4	$—
Purchase commitments	151.7	151.7	—	—	—	—	—	—
Tax liabilities	106.3	—	—	—	—	—	—	106.3
Long-term debt	1,000.0	—	—	—	—	—	1,000.0	—
Interest payment on long-term debt	900.2	27.1	46.9	46.9	46.9	46.9	685.5	—
Other contractual obligations	83.9	65.6	8.5	4.8	3.0	2.0	—	—
Total	$2,584.2	$272.1	$106.8	$95.6	$108.0	$97.5	$1,797.9	$106.3

Operating Leases

The Company leases its facilities under operating leases that expire at various times, the longest of which expires on November 22, 2022. Future minimum payments under the non-cancelable operating leases totaled $342.1 million as of June 30, 2011. Rent expense was $17.8 million and $32.6 million for the three and six months ended June 30, 2011, respectively, and $13.7 million and $27.8 million for the three and six months ended June 30, 2010, respectively.

Purchase Commitments

In order to reduce manufacturing lead times and ensure adequate component supply, contract manufacturers utilized by the Company place non-cancelable, non-returnable (“NCNR”) orders for components based on the Company’s build forecasts. As of June 30, 2011, there were NCNR component orders placed by the contract manufacturers with a value of $151.7 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 June 30, 2011, the Company had accrued $12.9 million based on its estimate of such charges.

Tax Liabilities

As of June 30, 2011, the Company had $106.3 million included in long-term liabilities in the condensed consolidated balance sheet for unrecognized tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments related to the additional $106.3 million in liability due to uncertainties in the timing of tax audit outcomes.

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

As of June 30, 2011, the Company held long-term debt with a carrying value of $999.0 million. Of these notes, $300.0 million will mature in 2016 and bears interest at a fixed rate of 3.10%, $300.0 million will mature in 2021 and bears interest at a fixed rate of 4.60%, and $400.0 million will mature in 2041 and bears interest at 5.95%. Interest on the notes is payable semiannually. See Note 9, Financing, for further discussion of the Company's long-term debt.

Other Contractual Obligations

As of June 30, 2011, other contractual obligations primarily consisted of $39.3 million in indemnity-related and service related escrows, required by certain acquisitions completed in 2005 and 2010, and other miscellaneous commitments.

Guarantees

The Company enters into agreements with customers that contain indemnification provisions relating to potential situations where claims could be alleged that the Company's products infringe the intellectual property rights of a third-party. 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 June 30, 2011, and December 31, 2010, the Company had $23.2 million and $21.6 million, respectively, in guarantees and standby letters of credit.

Legal Proceedings

From time to time, the Company is involved in disputes, litigation, and other legal actions, including the matters described below. The Company is aggressively defending its current litigation matters, however, the outcome of these matters is currently not determinable. There are many uncertainties associated with any litigation, and these actions or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any future intellectual property litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

IPO Allocation Case

In December 2001, a class action complaint was filed in the United States District Court for the Southern District of New York against the Goldman Sachs Group, Inc., Credit Suisse First Boston Corporation, FleetBoston Robertson Stephens, Inc., Royal Bank of Canada (Dain Rauscher Wessels), SG Cowen Securities Corporation, UBS Warburg LLC (Warburg Dillon Read LLC), Chase (Hambrecht & Quist LLC), J.P. Morgan Chase & Co., Lehman Brothers, Inc., Salomon Smith Barney, Inc., Merrill Lynch, Pierce, Fenner & Smith, Incorporated (collectively, the “Underwriters”), Juniper Networks and certain of Juniper Networks' officers. This action was brought on behalf of purchasers of the Company's common stock in its initial public offering in June 1999 and the Company's secondary offering in September 1999. Specifically, among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company's initial public offering and the Company's subsequent secondary offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as In re Initial Public Offering Securities Litigation, 21 MC 92. In April 2002, the plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The defendants in the coordinated proceeding filed motions to dismiss. On February 19, 2003, the Court granted in part and denied in part the motion to dismiss, but declined to dismiss the claims against the Company.

The parties have reached a global settlement of the litigation. 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 and other defendants will receive complete dismissals from the case. In October 2009, the Court entered an Opinion and Order granting final approval of the settlement. Certain objectors appealed. A number of the appeals have been dismissed. In May 2011, the appellate court issued an order remanding the remaining appeals to the district court for additional determinations.

IRS Notices of Proposed Adjustments

In May 2011, as a result of its audit of the Company's U.S. federal income tax returns for the 2005 and 2006 fiscal years, the IRS issued a Preliminary Notice of Deficiency ("PNOD") regarding the Company's transfer pricing transactions under its intercompany R&D cost sharing arrangement related to the license of intangibles acquired in 2005. The asserted changes would affect the Company's income tax liabilities for tax years subsequent to 2005. Because of the PNOD, the estimated incremental tax liabilities for all relative tax years would be approximately $92.0 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS.

In 2009, the Company received a PNOD from the IRS claiming that the Company owes additional taxes, plus interest and possible penalties, for the 2004 tax year based on a transfer pricing transaction related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. The asserted changes to the Company's 2004 tax year would affect the Company's income tax liabilities in tax years subsequent to 2003. Because of the PNOD, the estimated incremental tax liability would be approximately $807 million, excluding interest and penalties. The Company has filed a protest to the proposed deficiency with the IRS, which has been referred to the Appeals Division of the IRS. An Appeals conference has been scheduled.

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

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

The Company has not reached a final resolution with the IRS on an adjustment the IRS proposed for the 1999 and 2000 tax years. The Company is also under routine examination by certain state and non-U.S. tax authorities. The

Company believes that it has adequately provided for any reasonably foreseeable outcome related to these audits.

Note 16. Subsequent Events

Stock Repurchases

Subsequent to June 30, 2011, through the filing of this report, the Company repurchased and retired approximately 2.8 million shares of its common stock for approximately $66.0 million under its 2010 Stock Repurchase program at an average purchase price of $23.16 per share. The Company's 2010 Stock Repurchase Program had remaining authorized funds of $338.8 million as of the report filing date. The amount and timing of purchases under the Company's 2010 Stock Repurchase Program depend on various circumstances and will be made from time to time, as advisable under the circumstances, and as permitted by securities laws and other legal requirements. This program may be discontinued at any time.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Report"), including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and the future results of Juniper Networks, Inc. ("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," "c "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 in Part 1, Item I, of this Report, which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and spare parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors, including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. 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 accounting policies and estimates, see Note 2, Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Annual Report on Form 10-K for the year ended December 31, 2010, and in the section entitled "Critical Accounting Policies and Estimates" 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 a summary of our business and market environment along with a financial results overview. These sections should be read in conjunction with the more detailed discussion and analysis of our consolidated financial condition and results of operations in this Item 2, our "Risk Factors" section included in Item 1A of Part II, and our unaudited condensed consolidated financial statements and notes included in Item 1 of Part I of this report.

Business and Market Environment

We design, develop, and sell products and services that together provide our customers with a 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. Our broad product portfolio spans routing, switching, security, application acceleration, identity policy and control, and management to provide customers unmatched performance, greater choice and flexibility while reducing overall total cost of ownership.

Our operations are organized into two reportable segments: Infrastructure and Service Layer Technologies (“SLT”). Our Infrastructure segment primarily offers scalable routing and switching products that are used to control and direct network traffic from the core, through the edge, aggregation, and the customer premise equipment level, as well as a complete wireless local area network ("WLAN") solution that provides high reliability, performance, security, and management for mobile applications. Our SLT segment offers solutions that meet a broad array of our customers' priorities, from protecting the network itself and data on the network, to maximizing existing bandwidth and acceleration of applications across a distributed network.

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Both segments offer worldwide services, including technical support and professional services, as well as educational and training programs to our customers. Together, our high-performance product and service offerings help our customers to convert legacy networks that provide commoditized services into more valuable assets that provide differentiation, value, and increased performance, reliability, and security to end-users.

Over the past two years we have aligned our organization around a common vision for the new network. We are dedicated to uncovering new ideas and innovations that will serve the exponential demands of the networked world. To do this we will continue to build solutions that center on simplification, automation, and open innovation.

We delivered solid year-on-year revenue growth of 15% in the second quarter of 2011, led by revenue from our routing and switching products, partially offset by a decrease in SLT revenue and an expected decrease in revenue from Japan. Although strong, our results for the quarter were short of our expectations due primarily to slower than expected improvement in the macro environment and lower than expected demand for our SLT products.

As we head into the second half of the year, there are some indicators that give us reason for caution as well as some signs that make us optimistic looking forward. The macro economy may impact enterprise and public sector spending in the near-term and we are unclear about how quickly Japan will shift focus to capital investment in new projects. Also, service provider capital spending guidance for the second half of the year is lower than historical seasonal patterns. Nevertheless, the underlying growth trends for mobile Internet and cloud computing are intact and we are on a path to release a number of new products in late 2011 and early 2012. We had good design wins in the first half of 2011 with MediaFlow, Pulse, and core router products, and expect further wins in upcoming quarters with revenues later in the year as the deployments of these design wins start to roll out. We see continued growth in our routing and switching business which is creating momentum ahead of new product introductions, which set us up well for the future. Finally, we believe the long-term demand for networking, mobile Internet, and cloud computing remain strong and will continue to drive customer demand.

Financial Results Overview

Our financial highlights for the three and six months ended June 30, 2011, and 2010 are as follows (in millions, except per share amounts and percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	%Change	2011	2010	$ Change	%Change
Net revenues	$1,120.5	$978.3	$142.2	15 %	$2,222.2	$1,890.9	$331.3	18 %
Operating income	$170.9	$185.0	$(14.1)	(8)%	$348.3	$345.3	$3.0	1 %
Percentage of net revenues	15.3 %	18.9 %			15.7 %	18.3 %		
Net income attributable to Juniper Networks	$115.6	$130.5	$(14.9)	(11)%	$245.3	$293.6	$(48.3)	(16)%
Percentage of net revenues	10.3 %	13.3 %			11.0 %	15.5 %		
Net income per share attributable to Juniper Networks common stockholders:								
Basic	$0.22	$0.25	$(0.03)	(12)%	$0.46	$0.56	$(0.10)	(18)%
Diluted	$0.21	$0.24	$(0.03)	(13)%	$0.45	$0.55	$(0.10)	(18)%
Operating Cash Flows	$318.3	$221.3	$97.0	44 %	$558.0	$309.9	$248.1	80 %

- Net Revenues: Our net revenues increased across all three geographic regions in which we do business, the Americas, Europe, Middle East and Africa (“EMEA”), and Asia Pacific (“APAC”), and in both the service provider and enterprise markets in the three and six months ended June 30, 2011, compared to the same periods in 2010. These increases were primarily due to increased sales of our MX Series routers and EX Series switching products and related services.

- Book-to-Bill: Book-to-bill was less than one as of June 30, 2011, and greater than one as of June 30, 2010.

- Operating Income: Our operating income decreased as a percentage of revenues in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to increased expenses attributable to our investments in Sales and Marketing and Research and Development ("R&D") and a lower gross margin which was largely driven by changes in product mix.

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- Net Income Attributable to Juniper Networks and Net Income Per Share Attributable to Juniper Networks Common Stockholders: The decrease in net income attributable to Juniper Networks in the three and six months ended June 30, 2011, compared to the same periods in 2010, reflects the lower operating income discussed above, as well as higher interest expense that was primarily due to the interest on our recently issued long-term debt. Additionally, the 2010 six-month period was benefited by a $54.1 million non-recurring income tax benefit.

- Operating Cash Flows: Operating cash flows increased in both the three and six months ended June 30, 2011 compared to the same periods in 2010. Included in the operating cash flows for the six months ended June 30, 2010 was a $169.3 million outflow related to a litigation settlement payment.

- Deferred Revenue: Total deferred revenue increased $45.8 million to $930.2 million as of June 30, 2011, compared to $884.4 million as of December 31, 2010, reflecting increases in both deferred service and, to a lesser extent, deferred product revenue.

- Stock Repurchase Plan Activity: Under our stock repurchase program, we repurchased approximately 3.9 million shares of our common stock on the open market at an average price of $38.94 per share for an aggregate purchase price of $150.0 million during the three months ended June 30, 2011, and approximately 8.6 million shares of our common stock at an average price of $40.71 per share for an aggregate purchase price of $350.2 million during the six months ended June 30, 2011.

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. These estimates and assumptions are based on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances to determine reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

An accounting policy is considered to be critical if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the effect of the estimates and assumptions on financial condition or operating performance is material. The accounting policies we believe to reflect our more significant estimates, judgments and assumptions and are most critical to understanding and evaluating our reported financial results are as follows:

- Revenue recognition;
- Contract Manufacturer Liabilities;
- Warranty Costs;
- Goodwill and Purchased Intangible Assets;
- Share-Based Compensation;
- Income Taxes; and
- Loss Contingencies.

During the first half of fiscal 2011, there were no significant changes to our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010, for a complete discussion of our critical accounting policies and estimates.

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.

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Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Net revenues:								
Product	$891.4	$774.1	$117.3	15 %	$1,768.9	$1,495.2	$273.7	18 %
Percentage of net revenues	79.6 %	79.1 %			79.6 %	79.1 %		
Service	229.1	204.2	24.9	12 %	453.3	395.7	57.6	15 %
Percentage of net revenues	20.4 %	20.9 %			20.4 %	20.9 %		
Total net revenues	$1,120.5	$978.3	$142.2	15 %	$2,222.2	$1,890.9	$331.3	18 %

The increase in product and service revenues in the three and six months ended June 30, 2011, was due to strength in all three geographic regions, the Americas, EMEA and APAC. The increase in product revenues was largely attributable to increased sales of our MX Series products to service provider customers and switching products to both enterprise and service provider customers. Service revenue grew due to a higher installed base and an increase in contract renewals for support services.

Net Revenues by Market and Customer

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Service Provider	$729.3	$620.4	$108.9	18 %	$1,471.6	$1,213.6	$258.0	21 %
Percentage of net revenues	65.1 %	63.4 %			66.2 %	64.2 %		
Enterprise	391.2	357.9	33.3	9 %	750.6	677.3	73.3	11 %
Percentage of net revenues	34.9 %	36.6 %			33.8 %	35.8 %		
Total	$1,120.5	$978.3	$142.2	15 %	$2,222.2	$1,890.9	$331.3	18 %

We sell our high-performance network products and service offerings from our Infrastructure and SLT segments to two primary markets – service provider and enterprise. Determination of which market a particular revenue transaction relates to is based primarily upon the customer's industrial classification code, but may also include judgmental factors such as the intended use of the product. The service provider market generally includes wireline, wireless, and cable operators, as well as major Internet content and application providers, including those that provide social networking and search engine services. The enterprise market generally comprises businesses; federal, state, and local governments; and research and education institutions.

The revenue increase from sales to the service provider market in the three and six months ended June 30, 2011, compared to the same periods in 2010, was fueled by higher sales of our MX Series routers, which were partially offset by lower sales of our T Series routers and certain High-end SRX Series gateway products. In the enterprise market, our revenue increase in the three and six months ended June 30, 2011, compared to the same periods in 2010, reflected higher sales of our switching products and MX Series routers, which were partially offset by lower sales of our T- and M- Series routers. The increase in service provider and enterprise revenues in the three and six months ended June 30, 2011, was experienced across all three geographic regions.

In the three months ended June 30, 2011, and 2010, no single customer accounted for 10% or more of our net revenues. In the six months ended June 30, 2011 no single customer accounted for 10% or more of our net revenues, and in the six months ended June 30, 2010, Verizon accounted for 10.7% of our net revenues.

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Net Revenues by Geographic Region

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Americas:								
United States	$523.9	$439.9	$84.0	19 %	$1,049.9	$886.8	$163.1	18 %
Other	54.8	54.3	0.5	1 %	110.4	95.9	14.5	15 %
Total Americas	578.7	494.2	84.5	17 %	1,160.3	982.7	177.6	18 %
Percentage of net revenues	51.7 %	50.5 %			52.2 %	51.9 %		
Europe, Middle East, and Africa	329.0	289.5	39.5	14 %	629.0	553.6	75.4	14 %
Percentage of net revenues	29.4 %	29.6 %			28.3 %	29.3 %		
Asia Pacific	212.8	194.6	18.2	9 %	432.9	354.6	78.3	22 %
Percentage of net revenues	18.9 %	19.9 %			19.5 %	18.8 %		
Total	$1,120.5	$978.3	$142.2	15 %	$2,222.2	$1,890.9	$331.3	18 %

Net revenue in the Americas increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to higher sales in the United States. These increases were primarily attributable to service provider demand for our MX Series routers and related support services, EX Series products, and High-End SRX support services, as well as enterprise demand for High-End SRX support services.

The increases in EMEA net revenues during the three and six months ended June 30, 2011, were largely driven by service provider and enterprise demand for our MX Series routers and related support services, as well as increased enterprise demand for our EX Series products. The increases were primarily in Spain and Russia in the three months ended June 30, 2011, and across the region in the six months ended June 30, 2011, compared to the same periods in 2010.

Net revenues in APAC increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to increased sales in China and Korea. Sales in Japan decreased by $18.5 million in the 2011 quarter, due to the residual effects of the March 11 disaster. The increase in the three months ended June 30, 2011, was primarily driven by service provider demand for our E Series routers and enterprise demand for our EX Series products. The increase in the six months ended June 30, 2011 was primarily driven by our MX Series routers and related support services, as well as our E Series products.

Gross Margins

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Gross margin:								
Product gross margin	$599.1	$542.3	$56.8	10 %	$1,210.8	$1,041.1	$169.7	16 %
Percentage of product revenues	67.2 %	70.1 %			68.4 %	69.6 %		
Service gross margin	123.1	117.6	5.5	5 %	247.3	230.9	16.4	7 %
	53.7 %	57.6 %			54.6 %	58.3 %		

Percentage of service revenues								
Total gross margin	$722.2	$659.9	$62.3	9 %	$1,458.1	$1,272.0	$186.1	15 %
Percentage of net revenues	64.4 %	67.5 %			65.6 %	67.3 %		

Product gross margin percentage decreased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to a change in product mix and increase in manufacturing overhead costs. Service gross margin percentage decreased primarily due to headcount growth of 36% to 1,235 employees as of June 30, 2011, compared to 905 employees as of June 30, 2010. The increase in headcount was primarily related to increases in professional services personnel, as well as maintenance and support resources for our expanded product portfolio.

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Operating Expenses

The following table presents operating expenses and operating expenses as a percentage of net revenues (in millions, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Research and development	$257.3	$224.7	$32.6	14 %	$519.2	$431.8	$87.4	20 %
Percentage of net revenues	23.0 %	23.0 %			23.4 %	22.8 %		
Sales and marketing	246.6	202.3	44.3	22 %	492.9	394.7	98.2	25 %
Percentage of net revenues	22.0 %	20.7 %			22.2 %	20.9 %		
General and administrative	44.3	45.9	(1.6)	(4)%	89.2	89.0	0.2	— %
Percentage of net revenues	3.9 %	4.7 %			4.0 %	4.7 %		
Amortization of purchased intangible assets	1.3	1.2	0.1	11 %	2.9	2.3	0.6	23 %
Percentage of net revenues	0.1 %	0.1 %			0.1 %	0.1 %		
Restructuring	(0.9)	0.3	(1.2)	N/M	(1.3)	8.4	(9.7)	(115)%
Percentage of net revenues	(0.1)%	— %			(0.1)%	0.5 %		
Acquisition-related and other charges	2.7	0.5	2.2	396 %	6.8	0.5	6.3	N/M
Percentage of net revenues	0.2 %	0.1 %			0.3 %	— %		
Total operating expenses	$551.3	$474.9	$76.4	16 %	$1,109.7	$926.7	$183.0	20 %
Percentage of net revenues	49.1 %	48.6 %			49.9 %	49.0 %		

N/M = not meaningful

R&D expense increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, as we increased our investments to deliver on our innovation roadmap by growing our engineering headcount from 3,608 as of June 30, 2010, to 4,200 employees as of June 30, 2011, slightly offset by lower variable compensation in the 2011 periods.

Sales and marketing expenses increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to an increase in personnel-related expenses of $38.3 million and $75.2 million, respectively. This increase was driven by 23% growth in our sales and marketing headcount from 2,208 employees as of June 30, 2010 to 2,717 employees as of June 30, 2011, and outside services to support our go-to-market strategic initiatives.

General and administrative ("G&A") expense decreased slightly in the three months ended June 30, 2011 and was flat in the six months ended June 30, 2011, compared to the same periods in 2010. The costs associated with G&A headcount growth of 9% from 417 at June 30, 2010 to 455 at June 30, 2011 were largely offset by lower variable compensation.

Amortization of purchased intangible assets increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, due to the addition of intangible assets from acquisitions during 2010. Acquisition-related charges were also higher in the 2011 periods due to our recent acquisitions. See Note 3, Business Combinations in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, for further discussion of these acquisitions.

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Share-Based Compensation

Share-based compensation expense associated with stock options, employee stock purchases, restricted stock units ("RSUs"), and performance share awards ("PSAs") was recorded in the following cost and expense categories (in millions, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Cost of revenues - Product	$1.2	$1.0	$0.2	21 %	$2.2	$2.1	$0.1	3 %
Cost of revenues - Service	4.4	3.2	1.2	38 %	8.4	6.7	1.7	25 %
Research and development	26.6	18.7	7.9	42 %	48.9	35.7	13.2	37 %
Sales and marketing	19.2	13.9	5.3	38 %	32.4	25.6	6.8	27 %
General and administrative	8.7	7.8	0.9	11 %	17.3	15.1	2.2	15 %
Total	$60.1	$44.6	$15.5	35 %	$109.2	$85.2	$24.0	28 %

Share-based compensation expense increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to the increase in award grants driven by headcount growth and higher fair value of equity awards attributable to the increase in the market value of our common stock for those awards.

Effect of Foreign Currency

The change in operating expenses, including cost of service revenue, R&D, sales and marketing, and G&A expenses, due to foreign currency fluctuations was approximately 2% and 1% in the three and six months ended June 30, 2011, and was approximately 1% for each of the three- and six-month periods ended June 30, 2010.

Other Income and Expense, Net and Income Tax Provision

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
Interest income	$2.6	$2.7	$(0.1)	(5)%	$5.0	$5.1	$(0.1)	(3)%
Interest expense	(15.2)	(2.0)	(13.2)	N/M	(21.6)	(3.6)	(18.0)	N/M
Other	(1.1)	3.4	(4.5)	(134)%	(3.5)	4.0	(7.5)	(188)%
Total other (expense) income, net	$(13.7)	$4.1	$(17.8)	N/M	$(20.1)	$5.5	$(25.6)	N/M
Percentage of net revenues	(1.2)%	0.4 %			(0.9)%	0.3 %		
Income tax provision	$41.7	$58.7	$(17.0)	(29)%	$83.0	$55.8	$27.2	49 %
Effective tax rate	26.5 %	31.0 %			25.3 %	16.0 %		

Interest income primarily includes interest income from our cash, cash equivalents, and investments. Interest expense, primarily consisting of interest on debt outstanding, increased in the three and six months ended June 30, 2011, compared to the same periods in 2010. Other typically consists of investment and foreign exchange gains and losses and other non-operational income and expense items. In the three and six month periods ended June 30, 2011, other included certain legal expenses unrelated to current or recent operations of approximately $3.1 million and $5.4

million, respectively, partially offset by investment and foreign exchange gains. In the three and six months ended June 30, 2010, we recognized a $3.2 million gain from a privately-held equity investment.

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

The effective tax rate for the three months ended June 30, 2010 differs from the federal statutory rate of 35% primarily due to the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates. The effective tax rate for the six months ended June 30, 2010 differs from the federal statutory rate of 35% primarily due to a $54.1 million income tax benefit resulting from a change in our estimate of unrecognized tax benefits related to share-based compensation and the benefit of earnings in foreign jurisdictions, which are subject to lower tax rates.

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For a further explanation of our income tax provision, see Note 14, Income Taxes, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Segment Information

For a description of the products and services for each segment, See Note 13, Segments, in Notes to Condensed Consolidated Financial Statement in Item I of this Form 10-Q.

Infrastructure

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
	(in millions except percentages and units)							
Infrastructure revenues:								
Routers - Product	$620.9	$502.2	$118.7	24 %	$1,230.5	$984.7	$245.8	25 %
Routers - Service	140.6	125.9	14.7	12 %	280.0	244.8	35.2	14 %
Infrastructure revenue - Routers	761.5	628.1	133.4	21 %	1,510.5	1,229.5	281.0	23 %
Percentage of net revenues	68.0 %	64.2 %			68.0 %	65.0 %		
Switches - Product	115.2	88.0	27.2	31 %	214.2	161.6	52.6	33 %
Switches - Service	7.3	4.3	3.0	69 %	14.1	7.9	6.2	77 %
Infrastructure revenue - Switches	122.5	92.3	30.2	33 %	228.3	169.5	58.8	35 %
Percentage of net revenues	10.9 %	9.4 %			10.2 %	8.9 %		
Total Infrastructure segment revenues	$884.0	$720.4	$163.6	23 %	$1,738.8	$1,399.0	$339.8	24 %
Percentage of net revenues	78.9 %	73.6 %			78.2 %	73.9 %		
Infrastructure chassis revenue units (1)	5,076	3,183	1,893	59 %	9,707	5,793	3,914	68 %
Infrastructure ports shipped (1)	234,845	125,842	109,003	87 %	471,530	236,998	234,532	99 %
Infrastructure operating income (2)	$209.7	$181.2	$28.5	16 %	$419.1	$357.7	$61.4	17 %
Percentage of Infrastructure revenues	23.7 %	25.2 %			24.1 %	25.6 %		

(1) Chassis revenue units represent the number of chassis on which revenue was recognized during the period. The number of ports on a module varies widely depending on the functionality and throughput offered by the module. Excludes modular and fixed configuration EX Series Ethernet switching products, circuit-to-packet products, and timing servers.
(2) A reconciliation of total segment operating income to income before taxes and noncontrolling interest can be found in Note 13, Segments, in Notes to Condensed Consolidated Financial Statement in Item I of this Form 10-Q.

During the three months ended June 30, 2011, Infrastructure product revenues increased across all three regions in the service provider market and in the Americas and EMEA regions in the enterprise market. During the six months ended

June 30, 2011, Infrastructure products revenue increased across all three regions in both the service provider and enterprise markets. The increases were primarily from sales of our MX Series routers, EX Series switches and WLAN, and E Series routers. Infrastructure chassis revenue units and ports shipped increased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to an increase in the shipments of MX Series products, which generally contain a higher number of ports per chassis.

The increase in Infrastructure service revenue for the three and six months ended June 30, 2011, was primarily driven by the increased MX Series router sales and strong contract renewals for support services.

Infrastructure operating income decreased as a percent of Infrastructure revenue in the three and six months ended June 30, 2011, compared to the same periods in 2010, largely due to the shift in product mix caused by the growth of our lower margin switching business.

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SLT

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	2010	$ Change	% Change	2011	2010	$ Change	% Change
	(in millions, except percentages and units)							
SLT segment revenues:								
SLT product revenue	$155.3	$183.8	$(28.5)	(16)%	$324.2	$348.9	$(24.7)	(7)%
Percentage of net revenues	13.9 %	18.8 %			14.6 %	18.5 %		
SLT service revenue	81.2	74.1	7.1	10 %	159.2	143.0	16.2	11 %
Percentage of net revenues	7.2 %	7.6 %			7.2 %	7.6 %		
Total SLT segment revenues	$236.5	$257.9	$(21.4)	(8)%	$483.4	$491.9	$(8.5)	(2)%
Percentage of net revenues	21.1 %	26.4 %			21.8 %	26.1 %		
SLT revenue units	64,114	60,158	3,956	7 %	123,319	114,666	8,653	8 %
SLT operating income	$32.5	$52.6	$(20.1)	(38)%	$68.9	$87.7	$(18.8)	(21)%
Percentage of SLT revenues	13.8 %	20.4 %			14.3 %	17.8 %		

(1) A reconciliation of total segment operating income to income before taxes and noncontrolling interest can be found in Note 13, Segments, in Notes to Condensed Consolidated Financial Statement in Item I of this Form 10-Q.

SLT product revenue decreased in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to a decrease in revenue from our High-End Firewall and High-End SRX products. During the quarter, the decline was experienced across all three geographic regions, primarily due to a decline in service provider demand in the Americas and to a lesser extent a decline in enterprise demand in the EMEA region. For the six-month period the service provider market decreased in the Americas, partially offset by an increase in product revenues in both the service provider and enterprise markets of the APAC and EMEA regions

Although SLT product revenue decreased in the 2011 periods, revenue units increased due to the higher sales of our lower priced branch products.

The increase in SLT service revenue during the three and six months ended June 30, 2011, was primarily driven by increased sales to service providers across all three geographic regions, partially offset by decreased sales to enterprise customers.

SLT operating income decreased as a percent of revenue in the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to lower gross margins resulting from changes in product mix.

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Liquidity and Capital Resources

Historically, we have funded our business primarily through our operating activities and the issuance of our common stock, and more recently, the issuance of long-term debt. The following table shows our capital resources (in millions, except percentages and days sales outstanding):

	June 30, 2011	December 31, 2010	Change	% Change
Working capital	$2,856.6	$1,742.4	$1,114.2	64 %
Days sales outstanding	39	45	(6)	(13)%
Cash and cash equivalents	$2,838.1	$1,811.9	$1,026.2	57 %
Short-term investments	631.8	474.5	157.3	33 %
Long-term investments	750.6	535.2	215.4	40 %
Total cash, cash equivalents and investments	4,220.5	2,821.6	1,398.9	50 %
Long-term debt	(999.0)	—	(999.0)	N/M
Net cash, cash equivalents, and investments	$3,221.5	$2,821.6	$399.9	14 %

The significant components of our working capital are cash and cash equivalents, short-term investments, and accounts receivable, reduced by accounts payable, income tax payable, accrued liabilities, and short-term deferred revenue. Working capital increased by $1,114.2 million in the six months ended June 30, 2011, primarily due to higher cash and cash equivalent and short-term investments balances from our $1.0 billion debt offering in March 2011.

Summary of Cash Flows

In the six months ended June 30, 2011, cash and cash equivalents increased by $1,026.2 million. This increase was the result of cash generated by our operating and financing activities of $558.0 million and $998.6 million, respectively, partially offset by cash used in investing activities of $530.4 million.

Operating Activities

Excluding the impact of the one-time 2010 litigation settlement payment of $169.3 million, cash flows from operations in the six months ended June 30, 2011, was $558.0 million compared to $479.2 million for the same period in 2010. Operating cash flow benefited from a reduction in accounts receivable driven by timing of cash collections and a refund related to the timing of prior year's R&D tax credit.

Investing Activities

For the six months ended June 30, 2011, net cash used by investing activities was $530.4 million compared to $181.8 million in the six months ended June 30, 2010. During the 2011 period we increased our investment balances using proceeds from our debt offering and increased our property and equipment spending, including amounts related to the build-out of our new headquarter campus.

Financing Activities

Net cash generated in financing activities was $998.6 million for the six months ended June 30, 2011, compared to $72.7 million in the same period for 2010, primarily due to the issuance of our long-term debt on March 5, 2011, and to a lesser extent, cash proceeds from common stock issued to our employees, slightly offset by repurchases of our common stock. For further discussion of our long-term debt, see Note 9, Financing, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Stock Repurchase Activities

In February 2010, our Board of Directors (the "Board") approved a stock repurchase program (the “2010 Stock Repurchase Program”), which authorized us to repurchase up to $1.0 billion of our common stock. This authorization was in addition to the stock repurchase program approved by the Board in March 2008 (the “2008 Stock Repurchase Program”), which also enabled

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us to repurchase up to $1.0 billion of our common stock.

We repurchased and retired approximately 3.9 million shares of our common stock at an average price of $38.94 per share for an aggregate purchase price of $150.0 million during the three months ended June 30, 2011, and approximately 8.6 million shares of our common stock at an average price of $40.71 per share for an aggregate purchase price of $350.2 million during the six months ended June 30, 2011, under our 2010 Stock Repurchase Program. As of June 30, 2011, there were no remaining authorized funds under the 2008 Stock Repurchase Program and $404.8 million remaining authorized funds under the 2010 Stock Repurchase Program.

Deferred Revenue

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

	As of June 30, 2011	December 31, 2010
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$288.7	$294.1
Distributor inventory and other sell-through items	138.6	143.4
Deferred gross product revenue	427.3	437.5
Deferred cost of product revenue	(134.8)	(148.8)
Deferred product revenue, net	292.5	288.7
Deferred service revenue	637.7	595.7
Total	$930.2	$884.4

Deferred gross product revenue as of June 30, 2011, decreased $10.2 million compared to December 31, 2010, primarily due to the release of approximately $30.1 million from two large product commitment deferrals, partially offset by new product commitments and other deferrals. Total deferred service revenue increased $42.0 million compared to December 31, 2010, largely due to the timing of annual maintenance contract renewals.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2011.

Contractual Obligations

There have been no significant changes during the six months ended June 30, 2011, to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, other than the addition of long-term debt and related interest as follows (in millions):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
Long-term debt	$1,000.0	$—	$—	$300.0	$700.0	$—
Interest payment on long-term debt	900.2	50.6	93.8	93.4	662.4	—

Liquidity and Capital Resource Requirements

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions and investments in strategic relationships that we have made or we may make in the future. Additionally, if we were to repurchase additional shares of our common stock under the 2010 Stock Repurchase Program, our liquidity may be impacted. As of June 30, 2011, 45% of our cash and investment balances are held outside of the U.S., which may be subject to U.S. taxes if repatriated.

In August 2010, we filed a $1.5 billion shelf registration with the SEC. In March 2011, we issued notes in the amount of $1.0 billion under the shelf registration statement. Therefore, while we have no current plans to do so, we may issue up to $500 million in additional securities under the shelf registration statement. The shelf registration is intended to give us flexibility to take advantage of financing opportunities as needed or deemed desirable in light of market conditions. Any additional offerings of securities under the shelf registration statement will be made pursuant to a prospectus.

We have been focused on managing our annual equity usage as a percentage of the common stock outstanding to align with peer group competitive levels and have made changes in recent years to reduce the number of shares underlying the equity awards we grant. Our intention for fiscal year 2011 is to target the number of shares underlying equity awards granted on an annual basis at approximately three percent (3%) of our common stock outstanding. Based upon shares underlying our grants to date of options, RSUs, and PSAs (counting only the on-target measure of such PSAs), we believe we are on track with respect to this goal for 2011.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term, and long-term investments (which includes the proceeds of the issuance of the notes), together with cash generated from operations as well as cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to fund our operations and anticipated growth for at least the next 12 months. We believe our working capital is sufficient to meet our liquidity requirements for capital expenditures, commitments, and other liquidity requirements associated with our existing operations during the same period. However, our future liquidity and capital requirements may vary materially from those now planned depending on many factors, including:

- level and mix of our product, sales, and gross profit margins;
- our business, product, capital expenditures and R&D plans;
- repurchases of our common stock;
- incurrence and repayment of debt and related interest obligations;
- litigation expenses, settlements, and judgments, or similar items related to resolution of tax audits;
- volume price discounts and customer rebates;
- accounts receivable levels that we maintain;
- acquisitions and/or funding of other businesses, assets, products, or technologies;
- changes in our compensation policies;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors' responses to our products and/or pricing;
- our relationships with supplies, partners, and customers;
- possible future investments in raw material and finished goods inventories;
- expenses related to future restructuring plans, if any;

- tax expense associated with share-based awards;
- issuance of share-based awards and the related payment in cash for withholding taxes in the current year and possibly during future years;
- level of exercises of stock options and stock purchases under our equity incentive plans; and
- general economic conditions and specific conditions in our industry and markets, including the effects of disruptions in global credit and financial markets, international conflicts, and related uncertainties.

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Factors That May Affect Future Results

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2010. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the second quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under "Legal Proceedings" section in Note 15, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements in Item 1 Part I of this Quarterly Report on Form 10-Q, is incorporated herein by reference.

Item 1A. Risk Factors

Factors That May Affect Future Results

Investments in our securities involve significant risks. The market price of our stock has historically reflected a higher multiple of earnings than many other companies. Accordingly, even small changes in investor expectations for our future growth and earnings, whether as a result of actual or rumored financial or operating results, changes in the mix of the products and services sold, acquisitions, industry changes, or other factors, could trigger, and have triggered in the past, significant fluctuations in the market price of our common stock. Investors in our securities should carefully consider all of the relevant factors, including, but not limited to, the following factors, that could affect our stock price.

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

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

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

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

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

Our revenues depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness, customer financial difficulties, and constrained spending on network expansion and enterprise infrastructure have resulted in certain historical periods, and may in the future result in decreased revenues and earnings and could make it difficult to forecast sales and operating results and could negatively affect our ability to provide forecasts to our contract manufacturers and manage our contract manufacturer relationships and other expenses. In addition, the recent recession and economic weakness, particularly in the United States and Europe, as well as continued turmoil in the geopolitical environment in many parts of the world and the impact of the recent earthquake and tsunami in Japan, may continue to put pressure on global economic conditions, which could lead to reduced demand for our products and/or higher costs of production. Continued economic weakness may also lead to longer collection cycles for payments due from our customers, an increase in customer bad debt, restructuring initiatives and associated expenses, and impairment of investments. Furthermore, the continued weakness and uncertainty in worldwide credit markets may adversely impact the ability of our customers to adequately fund their expected capital expenditures, which could lead to delays or cancellations of planned purchases of our products or services. In addition, our operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses is, and will continue to be, fixed in the short and medium term.

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

A limited number of our customers comprise a significant portion of our revenues and any decrease in revenues from these customers could have an adverse effect on our net revenues and operating results.

A substantial majority of our net revenues depend on sales to a limited number of customers and distribution partners. For example, Verizon accounted for greater than 10% of our net revenues for the year ended December 31, 2010. Changes in the business requirements, vendor selection, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers could significantly decrease sales to such customers or could lead to delays or cancellations of planned purchases of our products or services, which increases the risk of quarterly fluctuations in our revenues and operating results. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition, in recent years, there has been consolidation in the telecommunications industry (for example, the acquisitions of Global Crossing and Qwest Communications and the pending acquisition of T-Mobile) and that consolidation trend has continued. If our customers or partners are parties to consolidation transactions they may suspend or indefinitely reduce their purchases of our products or other unforeseen consequences could harm our business, financial condition, and results of operations.

If we receive product orders late in a quarter, we may be unable to recognize revenue for these orders in the same period, which could adversely affect our quarterly revenues.

Generally, our Infrastructure products are not stocked by distributors or resellers due to their cost and complexity and configurations required by our customers, and we generally build such products as orders are received. In recent years, the volume of orders received late in any given fiscal quarter has generally continued to increase but remains unpredictable. If orders for certain products are received late in any quarter, we may not be able to build, ship, and recognize revenue for these orders in the same period, which could adversely affect our ability to meet our expected revenues for such quarter. Additionally, we determine our operating expenses largely on the basis of anticipated revenues and a high percentage of our expenses are fixed in the short and medium term. As a result, a failure or delay in generating or recognizing revenue could cause significant variations in our operating results and operating margin from quarter-to-quarter.

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

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

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

Competition is intense in the markets that we address. The Infrastructure market has historically been dominated by Cisco with competition coming from other companies such as Alcatel-Lucent, Brocade, Extreme Networks, Hewlett Packard Company, and Huawei. In the SLT market, we face intense competition from a broader group of companies such as CheckPoint, Cisco, F5 Networks, and Riverbed. In addition, a number of other small public and private companies have products or have announced plans for new products to address the same challenges and markets that our products address.

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In addition, actual or speculated consolidation among competitors, or the acquisition of our partners and/or resellers by competitors, can increase the competitive pressures faced by us as customers may delay spending decisions. In this regard, Ericsson acquired Redback in 2007, and Brocade acquired Foundry Networks in 2009. A number of our competitors have substantially greater resources and can offer a wider range of products and services for the overall network equipment market than we do. If we are unable to compete successfully against existing and future competitors on the basis of product offerings or price, we could experience a loss in market share and revenues and/or be required to reduce prices, which could reduce our gross margins, and which could materially and adversely affect our business, financial condition, and results of operations.

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

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added and other reseller and distribution partners, including our worldwide strategic partners such as Dell, Ericsson, IBM, and NSN. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell our competitors' products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our value-added resellers or distributors could materially reduce our revenues. For example, in July 2011, Dell announced it was purchasing Force10 Networks, a company that offers several products that compete with our products, and in 2006, one of our largest resellers, Lucent, was acquired by Alcatel, a competitor of ours. As a result of the merger, Lucent became a competitor, their resale of our products declined, and we ultimately terminated our reseller agreement with Lucent. Our competitors may in some cases be effective in providing incentives to current or potential resellers and distributors to favor their products or to prevent or reduce sales of our products. If we fail to develop and maintain relationships with our partners, fail to develop new relationships with value-added resellers and distributors in new markets, or expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, or if these partners are not successful in their sales efforts, sales of our products may decrease, and our business, financial condition, and results of operations would suffer.

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

Further, in order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support it, and those processes and procedures may become increasingly complex and inherently difficult to manage. For example, in 2009, we entered into OEM agreements with Dell and IBM pursuant to which they rebrand and resell our products as part of their product portfolios. These relationships are complex and require additional processes and procedures that may be challenging and costly to implement, maintain and manage. Our failure to successfully manage and develop our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products.

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

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

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

Some of our business processes depend upon our IT systems, the systems, and processes of third parties, and on the interfaces of our systems with the systems of third parties. For example, our order entry system feeds information into the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, our processes may function at a diminished level or not at all. This could negatively impact our ability to ship products or otherwise operate our business, and our financial results could be harmed. For example, although it did not adversely affect our shipments, an earthquake in late December of 2006 disrupted our communications with China, where a significant part of our manufacturing occurs.

We also rely upon the performance of the systems and processes of our contract manufacturers to build and ship our products. If those systems and processes experience interruption or delay, our ability to build and ship our products in a timely manner may be harmed. For example, as we have expanded our contract manufacturing base to China, we have experienced instances where our contract manufacturer was not able to ship products in the time periods expected by us. If we are not able to ship our products or if product shipments are delayed, our ability to recognize revenue in a timely manner for those products would be affected and our financial results could be harmed.

Upgrades to key internal systems and processes, and problems with the design or implementation of these systems and processes could interfere with, and therefore harm, our business and operations.

We previously initiated a multi-year project to upgrade certain key internal systems and processes, including our company-wide human resources management system, our customer relationship management ("CRM") system and enterprise resource planning ("ERP") system. In the first quarter of 2010, we implemented a major upgrade of our CRM system. We have invested, and will continue to invest, significant capital and human resources in the design and implementation of these systems and processes. Any disruptions or delays in the design and implementation of the new systems or processes, particularly any disruptions or delays that impact our operations, could adversely affect our ability to process customer orders, ship products, provide service and support to our customers, bill and track our customers, fulfill contractual obligations, record and transfer information in a timely and accurate manner, file SEC reports in a timely manner, or otherwise run our business. Even if we do not encounter these adverse effects, the design and implementation of these new systems and processes may be much more costly than we anticipated. If we are unable to successfully design and implement these new systems and processes as planned, or if the implementation of these systems and processes is more costly than anticipated, our business, financial condition, and results of operations could be negatively impacted.

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

During periods of high demand for electronic products, component shortages are possible, and the predictability of the availability of such components may be limited. Any future growth in our business and the economy is likely to create greater pressures on us and our suppliers to accurately forecast overall component demand and to establish optimal component levels. If shortages or delays persist, the price of these components may increase, or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build new products in a timely manner, and our revenues and gross margins could suffer until other sources can be developed. For example, from time to time, including the first quarter of 2008, we experienced component shortages that resulted in delays of product shipments. We currently purchase numerous key components, including ASICs, from single or limited sources. The development of alternate sources for those components is time-consuming, difficult, and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. In the event of a component shortage or supply interruption from these suppliers, we may not be able to develop alternate or second sources in a timely manner. If we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver product to our customers, which would seriously affect present and future sales, which would, in turn, adversely affect our business, financial condition, and results of operations.

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

A number of raw materials or parts used in our products are supplied by companies in Japan. It is possible that the March 2011 earthquake and tsunami will adversely and unpredictably affect the availability of power or shipping capacity or otherwise impact their capacity or that of their own suppliers for an undeterminable period. Although we have taken various actions to minimize any adverse impact on our business, any delays, shortages or increased costs relating to those raw materials and parts could result in capacity restrictions, increased costs or shipment or delays in our product shipments. As a result, our business, results of operations or financial condition could be adversely affected.

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

The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of some technologies, especially encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring certification, notifications, review of source code, or the escrow and governmental recovery of private encryption keys. For example, Russia and China recently have implemented new requirements relating to products containing encryption and India has imposed special warranty and other obligations associated with technology deemed critical. Governmental regulation of encryption or IP networking technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international and domestic sales and adversely affect our revenues. In addition, failure to comply with such regulations could result in penalties, costs, and restrictions on import or export privileges or adversely affect sales to government agencies or government funded projects.

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

We cannot guarantee that we will be able to anticipate future market needs and opportunities or be able to develop new products or product enhancements to meet such needs or opportunities in a timely manner or at all. If we fail to anticipate market requirements or fail to develop and introduce new products or product enhancements to meet those needs in a timely manner, it could cause us to lose customers and such failure could substantially decrease or delay market acceptance and sales of our present and future products, which would significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop, and commercially introduce new products and enhancements, there can be no assurance that new products or enhancements will achieve widespread market acceptance.

For example, in connection with the acquisitions of Altor and Trapeze in 2010, we are now offering a virtualization security product and a WLAN product. Additionally, in 2011, we announced our new data center product, the QFabric™ solution, our mobility solutions with our MobileNext software and our Converged Supercore product, which converges the optical and packet layers of the network. If these or other new products do not gain market acceptance at a sufficient rate of growth, our ability to meet future financial targets may be adversely affected. In addition, if we fail to achieve market acceptance at a sufficient rate of growth, our ability to meet future financial targets and aspirations may be adversely affected. In addition, if we fail to deliver new or announced products to the market in a timely manner, it could adversely affect the market acceptance of those products and harm our competitive position and our business and financial results.

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

Our future effective tax rates could be subject to volatility or adversely affected by: earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates; changes in the valuation of our deferred tax assets and liabilities; expiration of, or lapses in, the R&D tax credit laws applicable to us; transfer pricing adjustments related to certain acquisitions, including the license of acquired intangibles under our intercompany R&D cost sharing arrangement; tax effects of share-based compensation; costs related to intercompany restructurings; or changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our business, financial condition, and results of operations.

From time to time, we receive preliminary notices of deficiency or notices of proposed adjustments from the IRS claiming that we owe additional taxes, plus interest and possible penalties. For example, we received a notice in 2011 and one in 2009 for previous years based on transfer pricing transactions related to the license of acquired intangibles under an intercompany R&D cost sharing arrangement. As a result of the preliminary notices of deficiency received in 2011 and 2009, the incremental tax liability would be approximately $92.0 million and $807.0 million excluding interest and penalties, respectively. We believe the IRS' position with regard to these matters is inconsistent with applicable tax laws, judicial precedent and existing Treasury regulations, and that our previously reported income tax provisions for the years in question are appropriate. However, there can be no assurance that these matters will be resolved in our favor. Regardless of whether these matters are resolved in our favor, the final resolution of these matters could be expensive and time-consuming to defend and/or settle. While we believe we have provided adequately for these matters, there is a possibility that an adverse outcome of these matters individually or in the aggregate could have a material effect on our results of operations and financial condition.

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

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

For example, customers in this class have purchased products from other vendors who promised but failed to deliver certain functionality and/or had products that caused problems or outages in the networks of these customers. As a result, this class of customers may request additional features from us and require substantial penalties for failure to deliver such features or may require substantial penalties for any network outages that may be caused by our products. These additional requests and penalties, if we are required to agree to them, may require us to defer revenue recognition from such sales, which may negatively affect our business, financial condition, and results of operations.

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

We provide demand forecasts to our contract manufacturers and the manufacturers order components and plan capacity based on these forecasts. If we overestimate our requirements, our contract manufacturers may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. Conversely, because lead times for required materials and components vary significantly and depend on factors such as the specific supplier, contract terms, and the demand for each component at a given time, if we underestimate our requirements, as we did in the third quarter of 2010 with respect to certain components, our contract manufacturers may have inadequate time, materials, and/or components required to produce our products, which could increase costs or could delay or interrupt manufacturing of our products and result in delays in shipments and deferral or loss of revenues.

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

We depend on independent contract manufacturers (each of which is a third-party manufacturer for numerous companies) to manufacture our products. Although we have contracts with our contract manufacturers, these contracts do not require them to manufacture our products on a long-term basis in any specific quantity or at any specific price. In addition, it is time-consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we fail to effectively manage our contract manufacturer relationships or if one or more of them experiences delays, disruptions, or quality control problems in our manufacturing operations, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers would increase the complexity of our supply chain management. Moreover, an increasing portion of our manufacturing is performed in China and other countries and is therefore subject to risks associated with doing business in other countries. Each of these factors could adversely affect our business, financial condition, and results of operations.

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

We have made, and may continue to make, acquisitions in order to enhance our business. For example, in December 2010 we acquired Altor and Trapeze, in July 2010 we acquired SMobile, and in April 2010 we acquired Ankeena. Acquisitions involve numerous risks, including problems combining the purchased operations, technologies or products, unanticipated costs, diversion of management's attention from our core businesses, adverse effects on existing business relationships with suppliers and customers, risks associated with entering markets in which we have no or limited prior experience, and potential loss of key employees. There can be no assurance that we will be able to integrate successfully any businesses, products, technologies, or personnel that we might acquire. The integration of businesses that we may acquire is likely to be a complex, time-consuming, and expensive process and we may not realize the anticipated revenues or other benefits associated with our acquisitions if we fail to successfully manage and operate the acquired business. If we fail in any acquisition integration efforts and are unable to efficiently operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls, and human resources practices, our business, financial condition, and results of operations may be adversely affected.

Acquisitions may also require us to issue common stock or assume equity awards that dilute the ownership of our current stockholders, assume liabilities, record goodwill and amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets, and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our financial condition and results of operations.

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

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

We are a party to lawsuits, which are costly to defend and, if determined adversely to us, could require us to pay damages or prevent us from taking certain actions, any or all of which could harm our business, financial condition, and results of operations.

We, and certain of our current and former officers and current and former members of our Board of Directors, are subject to various lawsuits. We have been served with lawsuits related to employment matters, commercial transactions and patent infringement as well as securities laws, a description of one of the securities lawsuits can be found in Note 15, Commitments and Contingencies, in Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q, under the heading “Legal Proceedings.” There can be no assurance that these or any actions that have been or may in the future be brought against us, our officers, and our directors will be resolved favorably or that tentative settlements will become final. Regardless of whether they are resolved, these lawsuits are, and any future lawsuits or threatened legal proceedings to which we, our officers, or our directors may become a party will likely be, expensive and time-consuming to defend, settle, and/or resolve. Legal proceedings, threatened legal proceedings or investigations, regardless of their ultimate outcome, could harm our reputation. Costs of defense, as well as any losses resulting from these claims or settlement of these claims, could significantly increase our expenses and could harm our business, financial condition, and results of operations.

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

Third parties have asserted and may in the future assert claims or initiate litigation related to patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to our products. The asserted claims and/or initiated litigation may include claims against us or our manufacturers, suppliers, partners, or customers, alleging that our products or services infringe proprietary rights. Regardless of the merit of these claims, they have been and can be time-consuming, result in costly litigation, and may require us to develop non-infringing technologies or enter into license agreements. Furthermore, because of the potential for high awards of damages or injunctive relief that are not necessarily predictable, even arguably unmeritorious claims may be settled for significant amounts of money. If any infringement or other intellectual property claim made against us by any third-party is successful, if we are required to settle litigation for significant amounts of money, or if we fail to develop non-infringing technology or license required proprietary rights on commercially reasonable terms and conditions, our business, financial condition, and results of operations could be materially and adversely affected.

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

Our ability to successfully offer our products and services in a rapidly evolving market requires an effective planning, forecasting, and management process to enable us to effectively scale and adjust our business in response to fluctuating market opportunities and conditions. In periods of market expansion, we have increased investment in our business by, for example,

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increasing headcount and increasing our investment in R&D, sales and marketing, and other parts of our business as we have in the 2010 fiscal year and in the first quarter of 2011. Conversely, during 2009, in response to downward trending industry and market conditions, we restructured our business, rebalanced our workforce, and reduced our real estate portfolio. Many of our expenses, such as real estate expenses, cannot be rapidly or easily adjusted because of fluctuations in our business or numbers of employees. Moreover, rapid changes in the size of our workforce could adversely affect our ability to develop and deliver products and services as planned or impair our ability to realize our current or future business objectives.

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

The traditional telecommunications industry is highly regulated, and our business and financial condition could be adversely affected by changes in regulations relating to the Internet telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or commerce on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we market equipment and services to service or content providers. Regulations governing the range of services and business models that can be offered by service providers or content providers could adversely affect those customers' needs for products designed to enable a wide range of such services or business models. For instance, the U.S. Federal Communications Commission has issued regulations governing aspects of fixed broadband networks and wireless networks; these regulations might impact service provider and content provider business models and as such, providers' needs for Internet telecommunications equipment and services.

In addition, environmental regulations relevant to electronic equipment manufacturing or operations may impact our business and financial condition adversely. For instance, the European Union has adopted WEEE, ROHS and REACH regulations. In addition, some governments have regulations prohibiting government entities from purchasing security products that do not meet specified indigenous certification criteria even though those criteria may be in conflict with accepted international standards. Similar regulations are in effect or under consideration in several jurisdictions where we do business. The adoption and implementation of such regulations could decrease demand for our products, increase the cost of building and selling our products and impact our ability to ship products into affected areas and recognize revenue in a timely manner. Any of these impacts could have a material adverse effect on our business, financial condition, and results of operations.

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

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our security products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until after they are launched or used against a target, we may be unable to anticipate or immediately detect these techniques. This could cause us to lose current and potential end-customers or cause us to lose current and potential value-added resellers and distributors.

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

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

As a result of our international operations, we are affected by economic, regulatory, social, and political conditions in foreign countries, including changes in general IT spending, the imposition of government controls, changes or limitations in trade protection laws, other regulatory requirements, which may affect our ability to import or export our products from various countries, service provider and government spending patterns affected by political considerations, unfavorable changes in tax treaties or laws, natural disasters, epidemic disease, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, military actions, acts of terrorism, political and social unrest and difficulties in staffing and managing international operations. For example, revenue attributable to our customers in Japan generally accounts for five percent to eight percent of our revenue. Although we did not experience a significant negative impact to our revenue during first quarter of fiscal year 2011, the March 2011 earthquake and tsunami in Japan may adversely and unpredictably affect our customers and spending patterns in Japan in the short term. Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

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

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

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

The majority of our revenues and expenses are transacted in U.S. Dollars. We also have some transactions that are denominated in foreign currencies, primarily the British Pound, Euro, Indian Rupee, and Japanese Yen related to our sales and service operations outside of the United States. An increase in the value of the U.S. Dollar could increase the real cost to our customers of our products in those markets outside the United States in which we sell in U.S. Dollars, and a weakened U.S. Dollar could increase the cost of local operating expenses and procurement of raw materials to the extent we must purchase components in foreign currencies.

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

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

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

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

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

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Our products are highly technical and if they contain undetected errors, our business could be adversely affected, and we may need to defend lawsuits or pay damages in connection with any alleged or actual failure of our products and services.

Our products are highly technical and complex, are critical to the operation of many networks, and, in the case of our security products, provide and monitor network security and may protect valuable information. Our products have contained and may contain one or more undetected errors, defects, malware, or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by end-customers. Any errors, defects, malware or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers, loss of future business and reputation, penalties, and increased service and warranty cost, any of which could adversely affect our business, financial condition, and results of operations. In addition, in the event an error, defect, malware, or vulnerability is attributable to a component supplied by a third-party vendor, we may not be able to recover from the vendor all of the costs of remediation that we may incur. In addition, we could face claims for product liability, tort, or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention. In addition, if our business liability insurance coverage is inadequate, or future coverage is unavailable on acceptable terms or at all, our financial condition and results of operations could be harmed.

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

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

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

We integrate licensed third-party technology into certain of our products. From time to time, we may be required to license additional technology from third-parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The failure to comply with the terms of any license may result in our inability to continue to use such license. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us, if possible, to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

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

We are required to test annually and review on an interim basis, our goodwill and intangible assets with indefinite lives, including the goodwill associated with past acquisitions and any future acquisitions, to determine if impairment has occurred. As of June 30, 2011, our goodwill was $3,927.9 million. If such assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. This would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. For example, such impairment could occur if the market value of our common stock falls below certain levels for a sustained period, or if the portions of our business related to companies we have acquired fail to grow at expected rates or decline. In the second quarter of 2006, our impairment evaluation resulted in a reduction of $1,280.0 million to the carrying value of goodwill on our balance sheet for the SLT operating segment, primarily due to the decline in our market capitalization that occurred over a period of approximately nine months prior to the impairment review and, to a lesser extent, a decrease in forecasted future cash flows. In recent years, economic weakness contributed to extreme price and volume fluctuations in global stock markets that reduced the market price of many technology company stocks, including ours. Future declines in our stock price, as well as any marked decline in our level of revenues or gross margins,

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increase the risk that goodwill and intangible assets may become impaired in future periods. We cannot accurately predict the amount and timing of any impairment of assets.

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal control over financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have and will continue to incur significant expenses and devote management resources to Section 404 compliance on an ongoing basis. In the event that our Chief Executive Officer, Chief Financial Officer, or independent registered public accounting firm determine in the future that, our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions may be adversely affected if our financial statements are not reliable and could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and financial condition.

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

At June 30, 2011, we had $2,838.1 million in cash and cash equivalents and $1,382.4 million in short- and long-term investments. We have invested these amounts primarily in U.S. government securities, government-sponsored enterprise obligations, foreign government debt securities, corporate notes and bonds, commercial paper, and money market funds meeting certain criteria. Certain of these investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets and caused credit and liquidity issues at many financial institutions. These market risks associated with our investment portfolio may have a negative adverse effect on our liquidity, financial condition, and results of operations.

We may be unable to generate the cash flow to service our debt obligations, including the Senior Notes.

In March 2011, we issued senior unsecured notes for an aggregate principle amount of $1.0 billion. We may not be able to generate sufficient cash flow to enable us to service our indebtedness, including the notes, or to make anticipated capital expenditures. Our ability to pay our expenses and satisfy our debt obligations, refinance our debt obligations and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors beyond our control. Based upon current levels of operations, we believe cash flow from operations and available cash will be adequate for the foreseeable future to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our indebtedness, including the senior notes. However, if we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt (including the senior notes) or obtain additional financing. There is no assurance that we will be able to refinance our debt, sell assets or borrow more money on terms acceptable to us, or at all.

The indenture that governs the senior notes also contains various covenants that limit our ability and the ability of our subsidiaries to, among other things:

- incur liens;

- incur sale and leaseback transactions; and

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

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

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Uninsured losses could harm our operating results.

We self-insure against many business risks and expenses, such as intellectual property litigation and our medical benefit programs, where we believe we can adequately self-insure against the anticipated exposure and risk or where insurance is either not deemed cost-effective or is not available. We also maintain a program of insurance coverage for various types of property, casualty, and other risks. We place our insurance coverage with various carriers in numerous jurisdictions. The types and amounts of insurance that we obtain vary from time to time and from location to location, depending on availability, cost, and our decisions with respect to risk retention. The policies are subject to deductibles, policy limits, and exclusions that result in our retention of a level of risk on a self-insurance basis. Losses not covered by insurance could be substantial and unpredictable and could adversely affect our financial condition and results of operations.

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

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

(c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 - April 30, 2011	2,105,222	$39.58	2,105,222	$471,505,571
May 1 - May 31, 2011	1,746,758	38.17	1,746,758	404,834,344
June 1 - June 30, 2011	—	—	—	404,834,344
Total	3,851,980	$38.94	3,851,980	

(1) Shares were repurchased under the stock repurchase program approved by the Board in February 2010 (the “2010 Stock Repurchase Program”), which authorized the Company to purchase up to an additional $1.0 billion of the Company's common stock. 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. As of June 30, 2011, the 2010 Stock Repurchase Program had 404,834,344 remaining authorized funds available for future stock repurchases.

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Item 6. Exhibits

Exhibit Number	Description of Document
3.1	Juniper Networks, Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2001)
3.2	Amended and Restated Bylaws of Juniper Networks, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
4.1	Indenture, dated March 3, 2011, by and between Juniper Networks, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2011)
4.8	First Supplemental Indenture, dated March 3, 2011, by and between Juniper Networks, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2011)
4.9	Form of Note for Juniper Networks, Inc.'s 3.100% Senior Notes due 2016 (incorporated by reference to Exhibit 4.8 hereto)
4.10	Form of Note for Juniper Networks, Inc.'s 4.600% Senior Notes due 2021 (incorporated by reference to Exhibit 4.8 hereto)
4.11	Form of Note for Juniper Networks, Inc.'s 5.950% Senior Notes due 2041 (incorporated by reference to Exhibit 4.8 hereto)
10.1	Juniper Networks, Inc. 2006 Equity Incentive Plan, as amended May 18, 2011 (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
10.2	Juniper Networks, Inc. Performance Bonus Plan (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
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	The following materials from Juniper Network Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, and (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements**
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

*Filed herewith.
**XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

	Juniper Networks, Inc.
August 8, 2011	By: /s/ Robyn M. Denholm Robyn M. Denholm Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
August 8, 2011	By: /s/ Gene Zamiska Gene Zamiska Vice President, Finance and Corporate Controller (Duly Authorized Officer and Principal Accounting Officer)

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Exhibit Index

Exhibit Number	Description of Document
3.1	Juniper Networks, Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2001)
3.2	Amended and Restated Bylaws of Juniper Networks, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
4.1	Indenture, dated March 3, 2011, by and between Juniper Networks, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2011)
4.8	First Supplemental Indenture, dated March 3, 2011, by and between Juniper Networks, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2011)
4.9	Form of Note for Juniper Networks, Inc.'s 3.100% Senior Notes due 2016 (incorporated by reference to Exhibit 4.8 hereto)
4.10	Form of Note for Juniper Networks, Inc.'s 4.600% Senior Notes due 2021 (incorporated by reference to Exhibit 4.8 hereto)
4.11	Form of Note for Juniper Networks, Inc.'s 5.950% Senior Notes due 2041 (incorporated by reference to Exhibit 4.8 hereto)
10.1	Juniper Networks, Inc. 2006 Equity Incentive Plan, as amended May 18, 2011 (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
10.2	Juniper Networks, Inc. Performance Bonus Plan (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

	The following materials from Juniper Network Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, and (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements**
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