

JUNIPER NETWORKS INC
Form 10-Q
May 06, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 No

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

(Do not check if a smaller
reporting company)

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

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There were approximately 533,069,000 shares of the Company's Common Stock, par value \$0.00001, outstanding as of April 29, 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 March 31,	
	2011	2010
Net revenues:		
Product	\$877,440	\$721,201
Service	224,172	191,417
Total net revenues	1,101,612	912,618
Cost of revenues:		
Product	265,746	222,381
Service	99,981	78,216
Total cost of revenues	365,727	300,597
Gross margin	735,885	612,021
Operating expenses:		
Research and development	261,979	206,994
Sales and marketing	246,291	192,375
General and administrative	44,924	43,138
Amortization of purchased intangible assets	1,544	1,137
Restructuring	(347) 8,105
Acquisition-related	4,101	—
Total operating expenses	558,492	451,749
Operating income	177,393	160,272
Other (expense) income, net	(6,462) 1,459
Income before income taxes and noncontrolling interest	170,931	161,731
Income tax provision (benefit)	41,271	(2,879
Consolidated net income	129,660	164,610
Adjust for net loss (income) attributable to noncontrolling interest	90	(1,495
Net income attributable to Juniper Networks	\$129,750	\$163,115
Net income per share attributable to Juniper Networks common stockholders:		
Basic	\$0.24	\$0.31
Diluted	\$0.24	\$0.30
Shares used in computing net income per share:		
Basic	530,789	521,141
Diluted	548,825	536,718

See accompanying Notes to Condensed Consolidated Financial Statements

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

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,944,383	\$1,811,887
Short-term investments	493,557	474,514
Accounts receivable, net of allowances	471,012	596,622
Deferred tax assets, net	160,032	161,535
Prepaid expenses and other current assets	235,443	169,812
Total current assets	4,304,427	3,214,370
Property and equipment, net	516,445	493,881
Long-term investments	645,609	535,178
Restricted cash	102,125	119,346
Purchased intangible assets, net	143,506	121,803
Goodwill	3,927,280	3,927,807
Other long-term assets	54,308	55,466
Total assets	\$9,693,700	\$8,467,851
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$228,275	\$292,270
Accrued compensation	188,736	256,746
Accrued warranty	38,320	35,931
Deferred revenue	733,249	660,264
Income taxes payable	25,651	25,000
Other accrued liabilities	189,513	201,765
Total current liabilities	1,403,744	1,471,976
Long-term debt	998,923	—
Long-term deferred revenue	217,024	224,165
Long-term income tax payable	101,630	103,823
Other long-term liabilities	75,530	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; 534,376 shares and 525,378 shares issued and outstanding at March 31, 2011, and December 31, 2010, respectively	5	5
Additional paid-in capital	9,998,125	9,717,783
Accumulated other comprehensive income (loss)	9,746	(1,251)
Accumulated deficit	(3,111,537)	(3,108,337)
Total Juniper Networks stockholders' equity	6,896,339	6,608,200
Noncontrolling interest	510	600
Total equity	6,896,849	6,608,800
Total liabilities and equity	\$9,693,700	\$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)

	Three Months Ended March	
	31,	
	2011	2010
Cash flows from operating activities:		
Consolidated net income	\$ 129,660	\$ 164,610
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation and amortization	40,758	35,269
Share-based compensation	47,586	40,561
Deferred income taxes	1,503	(12,471)
Excess tax benefits from share-based compensation	(39,041)	(20,520)
Changes in operating assets and liabilities:		
Accounts receivable, net	125,610	55,718
Prepaid expenses and other assets	(59,372)	(11,150)
Accounts payable	(58,468)	(14,125)
Accrued compensation	(66,510)	(19,847)
Accrued litigation settlements	—	(169,330)
Income tax payable	38,099	(1,088)
Other accrued liabilities	13,981	4,620
Deferred revenue	65,844	36,299
Net cash provided by operating activities	239,650	88,546
Cash flows from investing activities:		
Purchases of property and equipment, net	(53,972)	(37,807)
Purchases of trading investments	(2,495)	(1,245)
Purchases of available-for-sale investments	(437,773)	(447,716)
Proceeds from sales of available-for-sale investments	193,301	224,514
Proceeds from maturities of available-for-sale investments	126,260	235,960
Payment for business acquisition, net of cash and cash equivalents acquired	(28,573)	—
Changes in restricted cash	—	(1,550)
Purchases of privately-held and other equity investments, net	(5,972)	(4,773)
Net cash used in investing activities	(209,224)	(32,617)
Cash flows from financing activities:		
Proceeds from issuance of common stock	264,113	118,920
Purchases and retirement of common stock	(205,171)	(76,225)
Issuance of long-term debt, net	991,556	—
Change in customer financing arrangements	12,531	2,082
Excess tax benefit from share-based compensation	39,041	20,520
Return of capital to noncontrolling interest	—	(2,000)
Net cash provided by financing activities	1,102,070	63,297
Net increase in cash and cash equivalents	1,132,496	119,226
Cash and cash equivalents at beginning of period	1,811,887	1,604,723
Cash and cash equivalents at end of period	\$2,944,383	\$ 1,723,949

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 Consolidated Condensed 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 months ended March 31, 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 March 31, 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.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-28, Topic 350 - Intangibles - Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (“ASU 2010-28”), which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company's adoption of ASU 2010-28 did not 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.

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During the three months ended March 31, 2011, the Company completed two business combinations for cash of approximately \$30.5 million. 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

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 during the three months ended March 31, 2011 (in millions, except years):

	2011 Acquisitions Estimated Useful Life (In Amount Years)	
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 \$5.1 million of acquisition-related costs in the three months ended March 31, 2011. These costs were expensed in the period incurred and reported in the Company's consolidated statement of operations within cost of revenues and within operating expense as acquisition-related charges. There were no comparable charges incurred in the three months ended March 31, 2010.

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").

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 March 31, 2011		2010
Numerator:			
Net income attributable to Juniper Networks	\$129.8		\$163.1
Denominator:			
Weighted-average shares used to compute basic net income per share	530.8		521.1
Effect of dilutive securities:			
Employee stock awards	18.0		15.6
Weighted-average shares used to compute diluted net income per share	548.8		536.7
Net income per share attributable to Juniper Networks common stockholders:			
Basic	\$0.24		\$0.31
Diluted	\$0.24		\$0.30

The Company excludes outstanding stock options with exercise prices that are greater than the average market price from the calculation of diluted net income per share because their effect would be anti-dilutive. The Company includes the common shares underlying PSAs in the calculation of diluted net income per share when they become contingently issuable and excludes such shares when they are not contingently issuable. Employee stock options and PSAs covering approximately 5.8 million and 19.6 million shares of the Company's common stock in the three months ended March 31, 2011, and 2010, respectively, were outstanding, but were not included in the computation of diluted earnings per share.

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Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Note 5. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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

	As of March 31, 2011	December 31, 2010
Cash:		
Demand deposits	\$475.9	\$413.0
Time deposits	400.9	273.3
Total cash	876.8	686.3
Cash equivalents:		
U.S. government securities	146.5	76.7
Government-sponsored enterprise obligations	37.8	5.0
Certificates of deposit	5.6	—
Commercial paper	21.0	4.0
Money market funds	1,856.7	1,039.9
Total cash equivalents	2,067.6	1,125.6
Total cash and cash equivalents	\$2,944.4	\$1,811.9

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 March 31, 2011, and December 31, 2010 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of March 31, 2011:				
Fixed income securities:				
U.S. government securities	\$172.5	\$0.1	\$—	\$172.6
Government-sponsored enterprise obligations	266.5	0.3	(0.3)	266.5
Foreign government debt securities	23.7	0.1	—	23.8
Certificates of deposit	35.8	0.1	—	35.9
Commercial paper	31.0	—	—	31.0
Asset-backed securities	112.3	0.1	(0.1)	112.3
Corporate debt securities	484.7	1.9	(0.3)	486.3
Total fixed income securities	1,126.5	2.6	(0.7)	1,128.4
Total available-for-sale securities	1,126.5	2.6	(0.7)	1,128.4
Trading securities	10.8	—	—	10.8
Total	\$1,137.3	\$2.6	\$(0.7)	\$1,139.2
Reported as:				
Short-term investments	\$492.4	\$1.2	\$—	\$493.6

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Long-term investments	644.9	1.4	(0.7)	645.6
Total	\$1,137.3	\$2.6	\$(0.7)	\$1,139.2

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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	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

The following table presents the maturities of the Company's available-for-sale and trading securities, as of March 31, 2011 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year	\$ 481.6	\$ 1.2	\$—	\$ 482.8
Due between one and five years	644.9	1.4	(0.7)	645.6
No contractual maturity	10.8	—	—	10.8
Total	\$ 1,137.3	\$ 2.6	\$ (0.7)	\$ 1,139.2

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2011						