

JUNIPER NETWORKS INC
Form 10-Q
August 08, 2013

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

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____

Commission file number: 001-34501

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

94089
(Zip code)

(Registrant's telephone number, including area code)

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

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

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

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

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

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

There were 506,838,542 shares of the Company's Common Stock, par value \$0.00001, outstanding as of August 2, 2013.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Juniper Networks, Inc.

Condensed Consolidated Statements of Operations

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues:				
Product	\$863.8	\$804.7	\$1,645.6	\$1,576.6
Service	286.9	269.1	564.3	529.7
Total net revenues	1,150.7	1,073.8	2,209.9	2,106.3
Cost of revenues:				
Product	321.3	292.6	599.5	573.2
Service	108.9	113.3	219.1	231.1
Total cost of revenues	430.2	405.9	818.6	804.3
Gross margin	720.5	667.9	1,391.3	1,302.0
Operating expenses:				
Research and development	257.7	268.7	519.9	538.3
Sales and marketing	266.2	259.5	521.4	517.2
General and administrative	48.8	48.8	96.6	103.5
Amortization of purchased intangible assets	1.2	1.2	2.4	2.4
Restructuring charges	8.0	3.2	15.0	5.2
Acquisition and litigation charges	0.1	(0.2)	10.5	1.0
Total operating expenses	582.0	581.2	1,165.8	1,167.6
Operating income	138.5	86.7	225.5	134.4
Other (expense) income, net	(12.6)	) 2.8	(22.7)	) (21.6)
Income before income taxes	125.9	89.5	202.8	112.8
Income tax provision	28.0	31.8	13.9	38.8
Net income	\$97.9	\$57.7	\$188.9	\$74.0
Net income per share:				
Basic	\$0.19	\$0.11	\$0.37	\$0.14
Diluted	\$0.19	\$0.11	\$0.37	\$0.14
Shares used in computing net income per share:				
Basic	503.0	527.8	503.8	528.0
Diluted	506.3	531.8	510.4	533.8

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$97.9	\$57.7	\$188.9	\$74.0
Other comprehensive income (loss), net of tax:				
Available-for-sale securities:				
Change in unrealized gains (losses) on available-for-sale securities	5.8	(1.0)	) 5.6	2.1
Reclassification adjustment for realized net gains on available-for-sale securities included in net income	(0.1)	) (0.2)	) (0.5)	) (0.5)
Net change in unrealized gains (losses) on available-for-sale securities	5.7	(1.2)	) 5.1	1.6
Cash flow hedges:				
Change in unrealized (losses) gains on cash flow hedges	(0.1)	) (3.4)	) (2.2)	) 2.6
Reclassification adjustment for realized net (gains) losses on cash flow hedges included in net income	(0.4)	) 1.5	(1.8)	) 5.0
Net change in unrealized (losses) gains on cash flow hedges	(0.5)	) (1.9)	) (4.0)	) 7.6
Change in foreign currency translation adjustments	(3.7)	) (4.5)	) (9.5)	) 0.1
Other comprehensive income (loss), net of tax	1.5	(7.6)	) (8.4)	) 9.3
Comprehensive income	\$99.4	\$50.1	\$180.5	\$83.3

See accompanying Notes to Condensed Consolidated Financial Statements

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

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,249.9	\$2,407.8
Short-term investments	542.9	441.5
Accounts receivable, net of allowances	509.1	438.4
Deferred tax assets, net	141.3	172.6
Prepaid expenses and other current assets	210.9	140.4
Total current assets	3,654.1	3,600.7
Property and equipment, net	855.3	811.9
Long-term investments	1,026.4	988.1
Restricted cash and investments	94.0	106.4
Purchased intangible assets, net	123.6	128.9
Goodwill	4,057.7	4,057.8
Other long-term assets	202.6	138.3
Total assets	\$10,013.7	\$9,832.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$206.4	\$209.3
Accrued compensation	215.1	279.3
Accrued warranty	29.0	29.7
Deferred revenue	750.4	693.5
Other accrued liabilities	221.9	210.2
Total current liabilities	1,422.8	1,422.0
Long-term debt	999.3	999.2
Long-term deferred revenue	277.6	229.9
Long-term income taxes payable	115.7	112.4
Other long-term liabilities	80.7	69.1
Total liabilities	2,896.1	2,832.6
Commitments and contingencies		
Juniper Networks stockholders' equity:		
Convertible preferred stock, \$0.00001 par value; 10.0 shares authorized; none issued and outstanding	—	—
Common stock, \$0.00001 par value; 1,000.0 shares authorized; 505.6 shares and 508.4 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	—	—
Additional paid-in capital	9,899.5	9,905.7
Accumulated other comprehensive (loss) income	(3.7	) 4.7
Accumulated deficit	(2,778.2	) (2,911.4
Total Juniper Networks stockholders' equity	7,117.6	6,999.0
Noncontrolling interest	—	0.5
Total stockholders' equity	7,117.6	6,999.5
Total liabilities and stockholders' equity	\$10,013.7	\$9,832.1

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 188.9	\$ 74.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	111.4	126.8
Depreciation and amortization	93.7	89.9
Restructuring charges	16.5	5.2
Deferred income taxes	26.6	(23.1)
Gain on investments, net	(3.8)	(0.8)
Excess tax benefits from share-based compensation	(1.3)	(6.8)
Other non-cash charges	1.0	0.4
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(92.3)	) 170.7
Prepaid expenses and other assets	(86.9)	) (46.5)
Accounts payable	(3.4)	) (137.5)
Accrued compensation	(64.0)	) 21.4
Income taxes payable	(18.5)	) 17.2
Other accrued liabilities	3.1	(2.4)
Deferred revenue	104.5	25.9
Net cash provided by operating activities	275.5	314.4
Cash flows from investing activities:		
Purchases of property and equipment	(142.3)	) (169.7)
Purchases of trading investments	(2.1)	) (3.2)
Purchases of available-for-sale investments	(895.0)	) (614.8)
Proceeds from sales of available-for-sale investments	587.5	399.7
Proceeds from maturities of available-for-sale investments	183.8	371.6
Payments for business acquisitions, net of cash and cash equivalents	(10.0)	) (90.5)
Proceeds from sales of privately-held investments	1.7	19.8
Purchases of privately-held investments	(14.4)	) (6.1)
Purchase of licensed software	(10.0)	) (0.3)
Changes in restricted cash	—	(0.2)
Net cash used in investing activities	(300.8)	) (93.7)
Cash flows from financing activities:		
Proceeds from issuance of common stock	74.3	49.8
Purchases and retirement of common stock	(239.2)	) (150.1)
Payment for capital lease obligation	(1.4)	) (1.4)
Customer financing arrangements	32.4	8.1
Excess tax benefits from share-based compensation	1.3	6.8
Net cash used in financing activities	(132.6)	) (86.8)
Net (decrease) increase in cash and cash equivalents	(157.9)	) 133.9
Cash and cash equivalents at beginning of period	2,407.8	2,910.4
Cash and cash equivalents at end of period	\$ 2,249.9	\$ 3,044.3

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. (the "Company" or "Juniper") have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. 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, 2012, is derived from the audited Consolidated Financial Statements for the year ended December 31, 2012. 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, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or any future period. The information included in this Quarterly Report on Form 10-Q ("Report") should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," "Quantitative and Qualitative Disclosures About Market Risk," and the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Certain amounts in the prior year Condensed Consolidated Financial Statements have been reclassified to conform to the current year presentation.

The preparation of the financial statements and related disclosures in accordance with U.S. GAAP requires the Company to make judgments, assumptions, and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and the accompanying notes. Actual results could differ materially from those estimates under different assumptions or conditions.

In the first quarter of 2013, the Company consolidated operational oversight and management of all security products within the Software Solutions Division ("SSD") segment. As a result of this product realignment, security products previously reported in the Platform Systems Division ("PSD") segment (including the Branch SRX, Branch Firewall, and J Series product families) are now reported in the SSD segment. The Company reclassified the segment data for the prior period to conform to the current period's presentation. This change did not impact previously reported consolidated net revenues, operating income, net income, and net income per share. See Note 13, Segments, for further discussion of the Company's product realignment.

The Company previously 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 were consolidated with the accounts of the Company, and a noncontrolling interest was recorded for the noncontrolling investor's interests in the net assets and operations of the joint venture. In July 2011, NSN and the Company entered into an agreement to cease operation of and dissolve the joint venture and subsequently NSN assumed the activities of the joint venture. The Company terminated the joint venture in 2013 and the termination did not have a material effect on the Company's financial position or results of operations.

Note 2. Summary of Significant Accounting Policies

Effective April 1, 2013, the Company extended the useful lives of certain computers and equipment resulting from our actual historical usage, which demonstrated longer useful lives, as well as our planned use of these assets. The change was accounted for as a change in estimate and applied prospectively. For the three and six months ended June 30, 2013, this change in accounting estimate decreased depreciation expense by approximately \$11.0 million or \$0.01 per diluted share.

With the exception of the above change in estimate, there have been no material changes to the Company's significant accounting policies as compared to the accounting policies described in Note 2, 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, 2012.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11") to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal years, and interim

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

periods within those years, beginning after December 31, 2013. The Company intends to adopt this standard prospectively in the first quarter of 2014 and the adoption will not result in a change to the tax provision. The Company does not expect there will be a significant impact to its presentation of long-term taxes payable or its deferred tax assets.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which amends FASB Accounting Standards Codification ("ASC") 220, Comprehensive Income to include the reporting of reclassifications from accumulated other comprehensive income to the respective line items in net income. The Company adopted ASU 2013-02 during the first quarter of 2013 and presented the effects within the Condensed Consolidated Statements of Comprehensive Income and the accompanying notes.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210)—Disclosures About Offsetting Assets and Liabilities ("ASU 2011-11"), and in January 2013 issued ASU No. 2013-01, Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities ("ASU 2013-01"). These standards create new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Disclosures of certain instruments subject to enforceable master netting arrangements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. The Company adopted these standards in the first quarter of 2013 and presented the effects in the accompanying notes.

Note 3. Business Combinations

During the six months ended June 30, 2013, the Company completed a business combination for approximately \$10.0 million in cash consideration, of which \$0.1 million was allocated to net tangible assets acquired and \$9.9 million to intangible assets. The Company's consolidated financial statements include the operating results of this business combination from the date of acquisition, and the inclusion of those results were not material to its consolidated balance sheets and results of operations.

The Company recognized \$0.1 million and recorded an adjustment of \$0.2 million of acquisition-related costs during the three months ended June 30, 2013 and June 30, 2012, respectively, and \$0.2 million and \$1.0 million of acquisition-related costs during the six months ended June 30, 2013 and June 30, 2012, respectively. These acquisition-related costs were expensed in the period incurred and reported as a component of acquisition and litigation charges in the Company's Condensed Consolidated Statements of Operations.

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

Note 4. Cash Equivalents and Investments

Investments in Available-for-Sale and Trading Securities

The following tables summarize the Company's unrealized gains and losses and fair value of investments designated as available-for-sale and trading securities as of June 30, 2013 and December 31, 2012 (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of June 30, 2013				
Cash equivalents:				
Certificate of deposit	\$0.3	\$—	\$—	\$0.3
Money market funds	1,011.5	—	—	1,011.5
U.S. government securities	96.3	—	—	96.3
Total cash equivalents	1,108.1	—	—	1,108.1
Restricted investments:				
Money market funds	89.5	—	—	89.5
Mutual funds	2.7	—	—	2.7
Total restricted investments	92.2	—	—	92.2
Fixed income securities:				
Asset-backed securities	237.8	0.1	(0.5	) 237.4
Certificates of deposit	36.0	—	—	36.0
Commercial paper	6.6	—	—	6.6
Corporate debt securities	651.9	1.3	(1.0	) 652.2
Foreign government debt securities	15.8	—	—	15.8
Government-sponsored enterprise obligations	292.8	0.1	(0.5	) 292.4
U.S. government securities	295.9	0.1	—	296.0
Total fixed income securities	1,536.8	1.6	(2.0	) 1,536.4
Publicly-traded equity securities	7.6	11.7	(0.2	) 19.1
Total available-for-sale securities	2,744.7	13.3	(2.2	) 2,755.8
Trading securities in mutual funds ^(*)	13.8	—	—	13.8
Total	\$2,758.5	\$13.3	\$(2.2	) \$2,769.6
Reported as:				
Cash equivalents	\$1,108.1	\$—	\$—	\$1,108.1
Restricted investments	92.2	—	—	92.2
Short-term investments	531.1	12.1	(0.3	) 542.9
Long-term investments	1,027.1	1.2	(1.9	) 1,026.4
Total	\$2,758.5	\$13.3	\$(2.2	) \$2,769.6

^(*) Balance includes the Company's non-qualified deferred compensation plan assets.

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