

JUNIPER NETWORKS INC  
Form 10-Q  
November 07, 2018

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

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

For the quarterly period ended September 30, 2018

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.)

1133 Innovation Way

Sunnyvale, California

(Address of principal executive offices)

(408) 745-2000

(Registrant's telephone number, including area code)

94089

(Zip 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 filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 345,154,400 shares of the Company's Common Stock, par value \$0.00001, outstanding as of November 2, 2018.



Juniper Networks, Inc.  
Table of Contents

PART I - FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> <u>Three and Nine Months Ended September 30, 2018 and September 30, 2017 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>Three and Nine Months Ended September 30, 2018 and September 30, 2017 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u> <u>September 30, 2018 and December 31, 2017 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine Months Ended September 30, 2018 and September 30, 2017 (Unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>43</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
<u>Item 5. Other Information</u>	<u>63</u>
<u>Item 6. Exhibits</u>	<u>64</u>
<u>SIGNATURES</u>	<u>65</u>

Table of Contents

## 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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net revenues:				
Product	\$794.7	\$869.7	\$2,330.4	\$2,615.8
Service	385.1	388.1	1,136.1	1,171.9
Total net revenues	1,179.8	1,257.8	3,466.5	3,787.7
Cost of revenues:				
Product	312.5	336.0	955.5	1,026.4
Service	156.3	149.4	480.7	440.4
Total cost of revenues	468.8	485.4	1,436.2	1,466.8
Gross margin	711.0	772.4	2,030.3	2,320.9
Operating expenses:				
Research and development	253.8	236.4	772.0	752.8
Sales and marketing	224.8	232.5	702.5	716.6
General and administrative	67.9	70.6	178.1	176.7
Restructuring charges	4.4	2.0	2.3	29.4
Total operating expenses	550.9	541.5	1,654.9	1,675.5
Operating income	160.1	230.9	375.4	645.4
Other expense, net	(8.1 )	(5.1 )	(31.1 )	(33.8 )
Income before income taxes	152.0	225.8	344.3	611.6
Income tax (benefit) provision	(71.8 )	60.1	(30.4 )	157.3
Net income	\$223.8	\$165.7	\$374.7	\$454.3
Net income per share:				
Basic	\$0.65	\$0.44	\$1.07	\$1.20
Diluted	\$0.64	\$0.43	\$1.05	\$1.18
Shares used in computing net income per share:				
Basic	346.2	378.3	350.1	380.0
Diluted	350.5	382.7	355.2	386.5

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
Net income	\$223.8	\$165.7	\$374.7	\$454.3
Other comprehensive (loss) income, net of tax:				
Available-for-sale debt securities:				
Unrealized gains (losses) net of tax provision of \$0.3 and benefit of \$0.9 during the three and nine months ended September 30, 2018, respectively, and tax benefits of \$0.5 and \$0.2 for the corresponding periods of the fiscal year ended December 31, 2017 ("fiscal 2017"), respectively	0.9	(0.2 )	(0.6 )	1.4
Reclassification adjustment for realized net (losses) gains included in net income, net of tax provisions of zero for the three and nine months ended September 30, 2018, respectively, and net of tax provisions of \$0.9 for each of the corresponding periods of fiscal 2017	—	(1.9 )	0.9	(2.0 )
Net change on available-for-sale debt securities, net of tax	0.9	(2.1 )	0.3	(0.6 )
Cash flow hedges:				
Unrealized (losses) gains net of tax benefits of \$1.5 and \$2.7 during the three and nine months ended September 30, 2018, respectively, and net of tax provisions of \$0.5 and \$3.0 for the corresponding periods of fiscal 2017, respectively	(4.6 )	6.3	(5.9 )	14.6
Reclassification adjustment for realized net losses (gains) included in net income, net of tax benefit of \$0.5 and provision of \$0.3 during the three and nine months ended September 30, 2018, respectively, and net of tax provisions of \$0.8 and \$1.7 for the corresponding periods of fiscal 2017, respectively	2.6	(2.5 )	(5.5 )	(2.4 )
Net change on cash flow hedges, net of tax	(2.0 )	3.8	(11.4 )	12.2
Change in foreign currency translation adjustments	(7.0 )	8.4	(13.7 )	19.3
Other comprehensive (loss) income, net of tax	(8.1 )	10.1	(24.8 )	30.9
Comprehensive income	\$215.7	\$175.8	\$349.9	\$485.2

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Balance Sheets

(In millions, except par values)

	September 30, 2018	December 31, 2017
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,501.7	\$ 2,006.5
Short-term investments	887.3	1,026.1
Accounts receivable, net of allowances	648.3	852.0
Prepaid expenses and other current assets	253.4	299.9
Total current assets	4,290.7	4,184.5
Property and equipment, net	967.6	1,021.1
Long-term investments	259.0	988.4
Purchased intangible assets, net	115.0	128.1
Goodwill	3,094.3	3,096.2
Other long-term assets	373.7	415.5
Total assets	\$ 9,100.3	\$ 9,833.8
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 184.7	\$ 217.6
Accrued compensation	177.2	186.0
Deferred revenue	814.1	1,030.3
Short-term debt	349.7	—
Other accrued liabilities	214.8	304.3
Total current liabilities	1,740.5	1,738.2
Long-term debt	1,788.6	2,136.3
Long-term deferred revenue	351.2	509.0
Long-term income taxes payable	436.7	650.6
Other long-term liabilities	132.4	118.8
Total liabilities	4,449.4	5,152.9
Commitments and contingencies (Note 13)		
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; 345.1 shares and 365.5 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	7,698.4	8,042.1
Accumulated other comprehensive loss	(24.5	) (5.4
Accumulated deficit	(3,023.0	) (3,355.8
Total stockholders' equity	4,650.9	4,680.9
Total liabilities and stockholders' equity	\$ 9,100.3	\$ 9,833.8

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

Juniper Networks, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$374.7	\$454.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	180.2	151.1
Depreciation, amortization, and accretion	159.2	169.7
Other	3.5	(6.7 )
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	200.9	331.9
Prepaid expenses and other assets	43.9	51.2
Accounts payable	(27.6 )	(11.5 )
Accrued compensation	(4.2 )	(60.6 )
Income taxes payable	(244.0 )	8.8
Other accrued liabilities	(14.5 )	(20.3 )
Deferred revenue	(23.4 )	(21.2 )
Net cash provided by operating activities	648.7	1,046.7
Cash flows from investing activities:		
Purchases of property and equipment	(110.9 )	(97.6 )
Purchases of available-for-sale debt securities	(608.1 )	(1,298.6 )
Proceeds from sales of available-for-sale debt securities	1,012.2	761.2
Proceeds from maturities and redemptions of available-for-sale debt securities	446.6	521.3
Purchases of equity securities	(8.1 )	(13.7 )
Proceeds from sales of equity securities	29.8	1.3
Proceeds from Pulse note receivable	—	75.0
Payment of escrow balance related to prior year acquisitions	(31.5 )	—
Payments for business acquisitions, net of cash and cash equivalents acquired	—	(27.0 )
Net cash provided by (used in) investing activities	730.0	(78.1 )
Cash flows from financing activities:		
Repurchase and retirement of common stock	(755.5 )	(395.5 )
Proceeds from issuance of common stock	56.8	64.4
Payment of dividends	(187.0 )	(113.5 )
Change in customer financing arrangement	(16.9 )	—
Other	(1.5 )	—
Net cash used in financing activities	(904.1 )	(444.6 )
Effect of foreign currency exchange rates on cash, cash equivalents, and restricted cash	(10.9 )	13.3
Net increase in cash, cash equivalents, and restricted cash	463.7	537.3
Cash, cash equivalents, and restricted cash at beginning of period	2,059.1	1,880.6
Cash, cash equivalents, and restricted cash at end of period	\$2,522.8	\$2,417.9

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

Note 1. Basis of Presentation

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, 2017 has been derived from the audited Consolidated Financial Statements at that date. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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, 2017 (the “Form 10-K”).

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-18 (Topic 230) Statement of Cash Flow: Restricted Cash, effective January 1, 2018, using the retrospective transition method. Restricted cash of \$47.4 million and \$54.2 million has been included within cash, cash equivalents, and restricted cash when reconciling the beginning and ending total amounts, respectively, on the statement of cash flows for the nine months ended September 30, 2017, to conform to the current period presentation. The adoption did not have a material impact on the cash flow activity presented on the Company's Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017. See Note 3, Cash Equivalents and Investments, for a reconciliation of the cash balances within the Condensed Consolidated Statements of Cash Flows to the Condensed Consolidated Balance Sheets.

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.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Summary of Significant Accounting Policies

Except for the change in certain policies upon adoption of the accounting standards described below, there have been no material changes to the Company's significant accounting policies, 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 Form 10-K.

Recently Adopted Accounting Standards

**Comprehensive Income:** Effective January 1, 2018, the Company early adopted FASB ASU No. 2018-02 (Topic 220), Income Statement - Reporting Comprehensive Income, issued in February 2018, with an election to reclassify stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "Tax Act"), from accumulated other comprehensive income to retained earnings. The adoption resulted in a reclassification of \$5.7 million in income from accumulated other comprehensive loss to accumulated deficit as of the adoption date. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

**Financial Instruments:** On January 1, 2018, the Company adopted FASB ASU No. 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities and FASB ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall, which changes how entities classify and measure equity investments and present changes in the fair value of financial liabilities measured under the fair value option. The guidance also updates certain presentation and disclosure requirements. The Company adopted ASU 2016-01 as of January 1, 2018 using the modified retrospective method for its equity securities with readily determinable fair values and the prospective method for its equity securities without readily determinable fair values, resulting in no impact to the opening accumulated deficit balance. The Company has elected to use the measurement alternative for its equity investments without readily determinable fair value, defined as cost adjusted for changes from observable transactions for identical or similar investments of the same issuer, less impairment. See Note 3, Cash Equivalents and Investments for additional disclosures required upon adopting the standard.

**Revenue Recognition:** On January 1, 2018, the Company adopted FASB ASU No. 2014-09 (Topic 606) - Revenue from Contracts with Customers ("ASU 2014-09" or "Topic 606"), which provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605") and most industry specific guidance. Under ASU 2014-09, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted ASU 2014-09 under the modified retrospective approach, applying the amendments to prospective reporting periods. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The cumulative effect of the changes made to the Company's Condensed Consolidated Balance Sheet as of January 1, 2018 for the adoption of Topic 606 to all contracts with customers that were not completed as of December 31, 2017 was recorded as an adjustment to accumulated deficit as of the adoption date as follows:

	December 31, 2017	Adjustments	January 1, 2018
	As reported		As adjusted
<b>Assets:</b>			
Accounts receivable, net of allowances	\$852.0	\$ (1.9 )	\$850.1
Prepaid expenses and other current assets	299.9	31.5	331.4
Other long-term assets	415.5	(21.1 )	394.4
Total assets	\$9,833.8	\$ 8.5	\$9,842.3
<b>Liabilities:</b>			
Deferred revenue	\$1,030.3	\$ (225.4 )	\$804.9
Other accrued liabilities	304.3	33.8	338.1
Long-term deferred revenue	509.0	(124.6 )	384.4
Total liabilities	\$5,152.9	\$ (316.2 )	\$4,836.7
<b>Stockholders' Equity:</b>			
Accumulated deficit	\$(3,355.8)	\$ 324.7	\$(3,031.1)

Upon adoption, the Company recorded a cumulative effect adjustment of \$324.7 million, net of tax adjustment of \$63.9 million, which decreased the January 1, 2018 opening accumulated deficit balance on the Condensed Consolidated Balance Sheet, primarily as a result of the following items:

**Distributor Sales:** Under Topic 606, the Company recognizes revenue from sales to distributors upon delivery of the product to the distributor, rather than upon delivery of the product to the end customer. Rebates and incentives offered to distributors, which are earned when sales to end customers are completed, are estimated at the point of revenue recognition.

**Software Revenue:** Under Topic 605, the Company deferred revenue for software licenses where vendor-specific objective evidence of fair value had not been established for undelivered items (primarily services). Under Topic 606, revenue for software licenses is recognized at the time of delivery unless the ongoing services provide frequent, critical updates to the software, without which the software functionality would be rapidly diminished.

**Variable Consideration:** Some of the Company's contracts include penalties, extended payment terms, acceptance provisions or other price variability that precluded revenue recognition under Topic 605 because of the requirement for amounts to be fixed or determinable. Topic 606 requires the Company to estimate and account for variable consideration as a reduction of the transaction price.

**Revenue Allocation:** Similar to Topic 605, Topic 606 requires an allocation of revenue between deliverables, or performance obligations, within an arrangement. Topic 605 restricted the allocation of revenue that is contingent on future deliverables to current deliverables; however, Topic 606 removes this restriction. In addition, the nature of the performance obligations identified within a contract under Topic 606 as compared to Topic 605 will impact the allocation of the transaction price between product and services.

Contract Acquisition Costs: Topic 606 requires the deferral and amortization of “incremental” costs incurred to obtain a contract where the associated contract duration is greater than one year. The primary contract acquisition cost for the Company are sales commissions. Prior to January 1, 2018, the Company expensed sales commissions. The change required by Topic 606 resulted in the creation of an asset on January 1, 2018.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The impact of adoption of Topic 606 on the Company's Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheet was as follows (in millions):

	Three Months Ended September 30, 2018*			Nine Months Ended September 30, 2018*		
	As Reported	Without Adoption of Topic 606	Topic 606 Impact	As Reported	Without Adoption of Topic 606	Topic 606 Impact
Net revenues:						
Product	\$794.7	\$771.9	\$22.8	\$2,330.4	\$2,249.7	\$80.7
Service	385.1	412.5	(27.4 )	1,136.1	1,236.3	(100.2 )
Total net revenues	\$1,179.8	\$1,184.4	\$(4.6 )	\$3,466.5	\$3,486.0	\$(19.5)
Operating expenses:						
Sales and marketing	\$224.8	\$225.4	\$(0.6 )	\$702.5	\$697.6	\$4.9

\* Except as disclosed, the adoption of Topic 606 did not have a material impact on the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018.

	As of September 30, 2018		
	As reported	Without Adoption of Topic 606	Topic 606 Impact
Assets:			
Accounts receivable, net of allowances	\$648.3	\$635.3	\$13.0
Prepaid expenses and other current assets	253.4	232.6	20.8
Other long-term assets	373.7	371.8	1.9
Total assets	\$9,100.3	\$9,064.6	\$35.7
Liabilities:			
Deferred revenue	\$814.1	\$1,044.7	\$(230.6)
Other accrued liabilities	214.8	161.2	53.6
Long-term deferred revenue	351.2	445.5	(94.3 )
Total liabilities	\$4,449.4	\$4,720.7	\$(271.3)
Stockholders' Equity:			
Accumulated deficit	\$(3,023.0)	\$(3,330.2)	\$307.2

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Revenue Recognition

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

**Identify the contract with a customer.** The Company generally considers a sales contract or agreement with an approved purchase order as a customer contract provided that collection is considered probable, which is assessed based on the creditworthiness of the customer as determined by credit checks, payment histories, and/or other circumstances. The Company combines contracts with a customer if contracts are negotiated with a single commercial substance or contain price dependencies.

**Identify the performance obligations in the contract.** Product performance obligations include hardware and software licenses and service performance obligations include maintenance, software post-contract support, training, and professional services. Certain software licenses and related post-contract support are combined into a single performance obligation when the maintenance updates are critical to the continued functionality of the software.

**Determine the transaction price.** The transaction price for the Company's contracts with its customers consists of both fixed and variable consideration provided it is probable that a significant reversal of revenue will not occur when the uncertainty related to variable consideration is resolved. Fixed consideration includes amounts to be contractually billed to the customer while variable consideration includes estimates for rights of return, rebates, and price protection, which are based on historical sales returns and price protection credits, specific criteria outlined in rebate agreements, and other factors known at the time. The Company generally invoices customers for hardware, software licenses and related maintenance arrangements at time of delivery, and professional services either upfront or upon meeting certain milestones. Customer invoices are generally due within 30 to 90 days after issuance. The Company's contracts with customers typically do not include significant financing components as the period between the transfer of performance obligations and timing of payment are generally within one year.

**Allocate the transaction price to the performance obligations in the contract.** For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis. Standalone selling prices are based on multiple factors including, but not limited to historical discounting trends for products and services, pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies, and industry technology lifecycles.

**Recognize revenue when or as the Company satisfies a performance obligation.** Revenue for hardware and certain software licenses, are recognized at a point in time, which is generally upon shipment or delivery. Certain software licenses combined with post-contract support are recognized over time on a ratable basis over the term of the license. Revenue for maintenance and software post-contract support is recognized over time on a ratable basis over the contract term. Revenue from training and professional services is recognized over time as services are completed or ratably over the contractual period of generally one year or less.

Deferred Commissions

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit which is typically over the term of the customer contracts as initial commission rates and renewal rates are the same. Amortization expense is included in sales and marketing expenses in the accompanying Condensed Consolidated Statements of Operations.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recent Accounting Standards Not Yet Adopted

**Cloud Computing Arrangement:** In August 2018, the FASB issued ASU No. 2018-15 (Subtopic 350-40)

**Intangibles-Goodwill and Other-Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,** which provides guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a service contract. The new standard is to be applied on either a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

**Fair Value Measurement:** In August 2018, the FASB issued ASU No. 2018-13 (Topic 820) Disclosure

**Framework-Changes to the Disclosure Requirements for Fair Value Measurement,** which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. The new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

**Derivatives and Hedging:** In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity's ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and presentation and disclosure requirements will be applied on a prospective basis. This standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

**Amortization on Purchased Callable Debt Securities:** In March 2017, the FASB issued ASU No. 2017-08

**Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities** which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The ASU will not impact debt securities held at a discount. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, and is to be applied on a modified retrospective basis with early adoption permitted. The adoption of this standard will not have an impact on the Consolidated Financial Statements.

**Simplifying the Test for Goodwill Impairment:** In January 2017, the FASB issued ASU No. 2017-04 (Topic 350)

**Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment,** which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU will be applied on a prospective basis and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017.

**Credit Losses on Financial Instruments:** In June 2016, the FASB issued ASU No. 2016-13 (Topic 326) Financial

**Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments,** which provides more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment

methodology. This pronouncement is effective for reporting periods beginning after December 15, 2019, and interim periods within those fiscal years, using a modified retrospective adoption method. Early adoption is permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

Leases: In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), Leases, and several amendments thereafter, which requires recognition of lease assets and lease liabilities on the balance sheet by lessees for leases classified as operating leases under current GAAP. This ASU must be applied on a modified retrospective basis and is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt this standard effective January 1, 2019. The Company is on schedule to complete its evaluation of the impact to the financial statements, disclosures, processes, systems, and controls. The Company currently anticipates a material impact related to the recognition of lease assets and lease liabilities for previously unrecognized leases on its Consolidated Balance Sheets, and does not expect this standard will have a material impact on the Consolidated Statements of Operations.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 3. Cash Equivalents and Investments

## Investments in Available-for-Sale Debt Securities

The following table summarizes the Company's unrealized gains and losses and fair value of investments designated as available-for-sale debt securities as of September 30, 2018 and December 31, 2017 (in millions):

	As of September 30, 2018				As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income securities:								
Asset-backed securities	\$71.9	\$ —	\$ (0.4 )	\$71.5	\$287.1	\$ —	\$ (0.6 )	\$286.5
Certificates of deposit	96.7	—	—	96.7	83.8	—	—	83.8
Commercial paper	334.7	—	—	334.7	217.1	—	—	217.1
Corporate debt securities	450.4	—	(3.7 )	446.7	929.6	0.4	(3.0 )	927.0
Foreign government debt securities	23.0	—	(0.2 )	22.8	62.9	—	(0.2 )	62.7
Time deposits	309.3	—	—	309.3	239.2	—	—	239.2
U.S. government agency securities	101.8	—	(0.3 )	101.5	143.9	—	(0.7 )	143.2
U.S. government securities	731.1	—	(0.8 )	730.3	406.8	0.1	(0.9 )	406.0
Total fixed income securities	2,118.9	—	(5.4 )	2,113.5	2,370.4	0.5	(5.4 )	2,365.5
Privately-held debt and redeemable preferred stock securities	16.6	37.4	—	54.0	15.9	37.4	—	53.3
Total available-for-sale debt securities	\$2,135.5	\$ 37.4	\$ (5.4 )	\$2,167.5	\$2,386.3	\$ 37.9	\$ (5.4 )	\$2,418.8
Reported as:								
Cash equivalents	\$967.2	\$ —	\$ —	\$967.2	\$351.0	\$ —	\$ —	\$351.0
Short-term investments	889.5	—	(2.2 )	887.3	1,027.2	0.1	(1.2 )	1,026.1
Long-term investments	262.2	—	(3.2 )	259.0	992.2	0.4	(4.2 )	988.4
Other long-term assets	16.6	37.4	—	54.0	15.9	37.4	—	53.3
Total	\$2,135.5	\$ 37.4	\$ (5.4 )	\$2,167.5	\$2,386.3	\$ 37.9	\$ (5.4 )	\$2,418.8

The following table presents the contractual maturities of the Company's total fixed income securities as of September 30, 2018 (in millions):

	Amortized Cost	Estimated Fair Value
Due in less than one year	\$ 1,856.7	\$ 1,854.5
Due between one and five years	262.2	259.0
Total	\$ 2,118.9	\$ 2,113.5



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following tables present the Company's total fixed income securities that were in an unrealized loss position as of September 30, 2018 and December 31, 2017 (in millions):

	As of September 30, 2018					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities:						
Asset-backed securities	\$16.9	\$ (0.1 )	\$46.5	\$ (0.3 )	\$63.4	\$ (0.4 )
Commercial paper	0.8	—	—	—	0.8	—
Corporate debt securities	279.0	(2.3 )	136.9	(1.4 )	415.9	(3.7 )
Foreign government debt securities	8.0	—	13.4	(0.2 )	21.4	(0.2 )
U.S. government agency securities	67.8	(0.1 )	33.6	(0.2 )	101.4	(0.3 )
U.S. government securities	616.9	(0.3 )	62.4	(0.5 )	679.3	(0.8 )
Total fixed income securities	\$989.4	\$ (2.8 )	\$292.8	\$ (2.6 )	\$1,282.2	\$ (5.4 )

	As of December 31, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities:						
Asset-backed securities	\$215.2	\$ (0.4 )	\$38.4	\$ (0.2 )	\$253.6	\$ (0.6 )
Corporate debt securities	646.7	(2.1 )	108.6	(0.9 )	755.3	(3.0 )
Foreign government debt securities	47.3	(0.2 )	6.6	—	53.9	(0.2 )
U.S. government agency securities	68.3	(0.2 )	67.9	(0.5 )	136.2	(0.7 )
U.S. government securities	260.8	(0.7 )	51.8	(0.2 )	312.6	(0.9 )
Total fixed income securities	\$1,238.3	\$ (3.6 )	\$273.3	\$ (1.8 )	\$1,511.6	\$ (5.4 )

For available-for-sale debt securities that have unrealized losses, the Company assesses impairment by evaluating various factors, including whether (i) it has the intention to sell any of these investments and (ii) whether it is more likely than not that it will be required to sell any of these investments before recovery of the entire amortized cost basis. As of September 30, 2018, the Company had 539 investments in unrealized loss positions. The gross unrealized losses related to these investments were primarily due to changes in market interest rates. The Company anticipates that it will recover the entire amortized cost basis of such available-for-sale debt securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three and nine months ended September 30, 2018 and September 30, 2017.

During the three and nine months ended September 30, 2018 and September 30, 2017, there were no material gross realized gains or losses from available-for-sale debt securities.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Investments in Equity Securities

The following table presents the Company's investments in equity securities as of September 30, 2018 and December 31, 2017 (in millions):

	As of	
	September 30, 2018	December 31, 2017
Equity investments with readily determinable fair value		
Money market funds <sup>(1)</sup>	\$1,126.2	\$ 969.8
Mutual funds <sup>(2)</sup>	28.0	27.6
Equity investments without readily determinable fair value <sup>(3)</sup>	32.6	29.7
Total equity securities	\$1,186.8	\$ 1,027.1
Reported as:		
Cash equivalents	\$1,114.6	\$ 928.0
Prepaid expenses and other current assets	11.5	36.3
Other long-term assets	60.7	62.8
Total	\$1,186.8	\$ 1,027.1

(1) Prior to January 1, 2018, money market funds were classified as available-for-sale securities and accounted for at fair value with unrealized gains and losses recognized in accumulated other comprehensive income (loss). Realized gains or losses from sales or impairments were recognized in the Condensed Consolidated Statements of Operations.

(2) Prior to January 1, 2018, mutual funds related to the Company's non-qualified deferred compensation ("NQDC") plan were classified as trading securities. Unrealized gains or losses were recognized in the Condensed Consolidated Statements of Operations.

(3) Prior to January 1, 2018, certain investments in privately-held companies were accounted for at cost less impairment. Realized gains or losses from sales or impairments were recognized in the Condensed Consolidated Statements of Operations.

For the three and nine months ended September 30, 2018 and September 30, 2017, there were no material unrealized gains or losses recognized for equity investments.

## Restricted Cash and Investments

The Company has restricted cash and investments for: (i) amounts held in escrow accounts, as required in connection with certain acquisitions completed primarily between 2014 and 2017; (ii) amounts held under the Company's short-term disability plan in California; and (iii) amounts under the NQDC plan for senior-level employees. Restricted investments are now designated as equity investments as described in Note 2, Summary of Significant Accounting Policies. As of September 30, 2018, the carrying value of restricted cash and investments was \$60.7 million, of which \$26.6 million was included in prepaid expenses and other current assets and \$34.1 million was included in other long-term assets on the Condensed Consolidated Balance Sheet.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash included in the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (in millions):

As of

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$2,501.7	\$ 2,006.5
Restricted cash included in Prepaid expenses and other current assets	15.1	49.6
Restricted cash included in Other long-term assets	6.0	3.0
Total cash, cash equivalents, and restricted cash	\$2,522.8	\$ 2,059.1

15

---

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 4. Fair Value Measurements

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table provides a summary of assets and liabilities measured at fair value on a recurring basis and as reported in the Condensed Consolidated Balance Sheets (in millions):

	Fair Value Measurements at September 30, 2018				Fair Value Measurements at December 31, 2017			
	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	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Other Unobservable Remaining Inputs (Level 3)	Total
Assets:								
Available-for-sale debt securities:								
Asset-backed securities	\$—	\$71.5	\$ —	\$71.5	\$—	\$286.5	\$ —	\$286.5
Certificates of deposit	—	96.7	—	96.7	—	83.8	—	83.8
Commercial paper	—	334.7	—	334.7	—	217.1	—	217.1
Corporate debt securities	—	446.7	—	446.7	—	927.0	—	927.0
Foreign government debt securities	—	22.8	—	22.8	—	62.7	—	62.7
Time deposits	—	309.3	—	309.3	—	239.2	—	239.2
U.S. government agency securities	—	101.5	—	101.5	—	143.2	—	143.2
U.S. government securities	313.5	416.8	—	730.3	322.4	83.6	—	406.0
Privately-held debt and redeemable preferred stock securities	—	—	54.0	54.0	—	—	53.3	53.3
Total available-for-sale debt securities	313.5	1,800.0	54.0	2,167.5	322.4	2,043.1	53.3	2,418.8
Equity securities:								
Money market funds <sup>(1)</sup>	1,126.2	—	—	1,126.2	969.8	—	—	969.8
Mutual funds <sup>(2)</sup>	28.0	—	—	28.0	27.6	—	—	27.6
Total equity securities	1,154.2	—	—	1,154.2	997.4	—	—	997.4
Derivative assets:								
Foreign exchange contracts	—	3.6	—	3.6	—	9.2	—	9.2
Total assets measured at fair value	\$1,467.7	\$1,803.6	\$ 54.0	\$3,325.3	\$1,319.8	\$2,052.3	\$ 53.3	\$3,425.4
Liabilities:								
Derivative liabilities:								
Foreign exchange contracts	\$—	\$(9.6)	\$ —	\$(9.6)	\$—	\$(1.8)	\$ —	\$(1.8)
Total liabilities measured at fair value	\$—	\$(9.6)	\$ —	\$(9.6)	\$—	\$(1.8)	\$ —	\$(1.8)

Total assets, reported as:								
Cash equivalents	\$1,176.2	\$905.6	\$ —	\$2,081.8	\$928.1	\$350.9	\$ —	\$1,279.0
Short-term investments	229.4	657.9	—	887.3	247.5	778.6	—	1,026.1
Long-term investments	22.5	236.5	—	259.0	74.8	913.6	—	988.4
Prepaid expenses and other current assets	11.5	3.6	—	15.1	36.3	9.2	—	45.5
Other long-term assets	28.1	—	54.0	82.1	33.1	—	53.3	86.4
Total assets measured at fair value	\$1,467.7	\$1,803.6	\$ 54.0	\$3,325.3	\$1,319.8	\$2,052.3	\$ 53.3	\$3,425.4
Total liabilities, reported as:								
Other accrued liabilities	\$—	\$(9.6 )	\$ —	\$(9.6 )	\$—	\$(1.8 )	\$ —	\$(1.8 )
Total liabilities measured at fair value	\$—	\$(9.6 )	\$ —	\$(9.6 )	\$—	\$(1.8 )	\$ —	\$(1.8 )

Balance includes \$11.6 million and \$16.8 million in restricted investments measured at fair value, related to the

(1) Company's acquisition-related escrows as of September 30, 2018 and December 31, 2017, respectively. The December 31, 2017 balance also includes \$25.0 million related to the Company's Directors and Officers indemnification trust, which was subsequently terminated.

(2) Balance relates to restricted investments measured at fair value related to the Company's NQDC plan.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company's Level 2 available-for-sale debt securities are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, or alternative pricing sources with reasonable levels of price transparency which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets. The Company's derivative instruments are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs. The Company's policy is to recognize asset or liability transfers among Level 1, Level 2, and Level 3 at the beginning of the quarter in which a change in circumstances resulted in a transfer. During the three and nine months ended September 30, 2018, the Company had no transfers between levels of the fair value hierarchy of its assets or liabilities measured at fair value.

All of the Company's privately-held debt and redeemable preferred stock securities are classified as Level 3 assets due to the lack of observable inputs to determine fair value. The Company estimates the fair value of its privately-held debt and redeemable preferred stock securities on a recurring basis using an analysis of the financial condition and near-term prospects of the investee, including recent financing activities and the investee's capital structure. During the three and nine months ended September 30, 2018, there were no significant activities related to privately-held debt and redeemable preferred stocks securities.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Certain of the Company's assets, including intangible assets and goodwill, are measured at fair value on a nonrecurring basis, when they are deemed to be other-than temporarily impaired. There were no impairment charges recognized during the three and nine months ended September 30, 2018.

Equity investments without readily determinable fair value are measured at fair value, when they are deemed to be impaired or when there is an adjustment from observable price changes. For the three and nine months ended September 30, 2018, there were no impairment charges or adjustments resulting from observable price changes for equity investments without readily determinable fair value.

As of September 30, 2018 and December 31, 2017, the Company had no liabilities required to be 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, accounts payable, and other accrued liabilities approximate fair value due to their short maturities. As of September 30, 2018 and December 31, 2017, the estimated fair value of the Company's short-term and long-term debt in the Condensed Consolidated Balance Sheets was \$2,168.4 million and \$2,252.9 million, respectively, based on observable market inputs (Level 2). The carrying value of the promissory note issued to the Company in connection with the previously completed sale of Junos Pulse (the "Pulse Note"), along with the accumulated interest paid in kind, of \$64.6 million and \$61.2 million approximates its fair value as of September 30, 2018 and December 31, 2017, respectively. The Pulse Note is classified as a Level 3 asset due to the lack of observable inputs to determine fair value.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 5. 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 the Company's foreign currency derivatives are summarized as follows (in millions):

	As of	
	September 30,	December 31,
	2018	2017
Cash flow hedges	\$609.5	\$ 521.1
Non-designated derivatives	141.4	108.3
Total	\$750.9	\$ 629.4

## Cash Flow Hedges

The Company uses foreign currency forward contracts to hedge the Company's planned cost of revenues and operating expenses denominated in foreign currencies. These derivatives are designated as cash flow hedges. Execution of cash flow hedge derivatives typically occurs every month with maturities of eighteen months or less. As of September 30, 2018, an estimated \$5.8 million of unrealized net loss within accumulated other comprehensive loss is expected to be reclassified into earnings within the next 12 months.

The Company recognized an unrealized loss of \$6.1 million and \$8.6 million in accumulated other comprehensive loss for the effective portion of its derivative instruments for the three and nine months ended September 30, 2018, respectively; and an unrealized gain of \$6.8 million and \$17.6 million for the comparable periods in fiscal 2017, respectively. The Company reclassified a loss of \$3.1 million and a gain of \$5.8 million out of accumulated other comprehensive loss to cost of revenues and operating expenses in the Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2018, respectively. The amounts reclassified out of accumulated other comprehensive loss to cost of revenues and operating expenses in the Condensed Consolidated Statements of Operations were not material during the three and nine months ended September 30, 2017.

The ineffective portion of the Company's derivative instruments recognized in its Condensed Consolidated Statements of Operations was not material during the three and nine months ended September 30, 2018 and September 30, 2017.

See Note 4, Fair Value Measurements, for the fair values of the Company's derivative instruments in the Condensed Consolidated Balance Sheets.

## Non-Designated Derivatives

The Company also uses foreign currency forward contracts to mitigate variability in gains and losses generated from the remeasurement of certain monetary assets and liabilities denominated in foreign currencies. These foreign exchange forward contracts typically have maturities of approximately one to three months. The outstanding non-designated derivative instruments are carried at fair value. Changes in the fair value of these derivatives recorded in other expense, net within the Condensed Consolidated Statements of Operations were not material during the three and nine months ended September 30, 2018 and September 30, 2017.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 6. Other Financial Information

## Inventory

Total inventory consisted of the following (in millions):

	As of	
	September 30,	December 31,
	2018	2017
Production and service materials	\$ 56.3	\$ 71.2
Finished goods	19.3	26.6
Inventory	\$ 75.6	\$ 97.8

Reported as:

Prepaid expenses and other current assets	\$ 74.1	\$ 93.8
Other long-term assets	1.5	4.0
Total	\$ 75.6	\$ 97.8

## Warranties

Changes during the nine months ended September 30, 2018 in the Company's warranty reserve as reported within other accrued liabilities in the Condensed Consolidated Balance Sheets were as follows (in millions):

Balance as of December 31, 2017	\$ 27.4
Provisions made during the period	22.0
Actual costs incurred during the period (23.0 )	
Balance as of September 30, 2018	\$ 26.4

## Deferred Revenue

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

	As of	
	September 30,	December 31,
	2018	2017
Deferred product revenue:		
Undelivered product commitments and other product deferrals	\$ 144.5	\$ 312.6
Distributor inventory and other sell-through items	—	68.1
Deferred gross product revenue	144.5	380.7
Deferred cost of product revenue	(10.9 )	(46.5 )
Deferred product revenue, net	133.6	334.2
Deferred service revenue	1,031.7	1,205.1
Total	\$ 1,165.3	\$ 1,539.3
Reported as:		
Current	\$ 814.1	\$ 1,030.3
Long-term	351.2	509.0
Total	\$ 1,165.3	\$ 1,539.3



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Revenue

See Note 10, Segments, for disaggregated revenue by product and service, customer vertical, and geographic region.

Product revenue of \$21.1 million and \$77.6 million included in deferred revenue at January 1, 2018 was recognized during the three and nine months ended September 30, 2018, respectively. Service revenue of \$150.0 million and \$581.3 million included in deferred revenue at January 1, 2018 was recognized during the three and nine months ended September 30, 2018, respectively.

The following table summarizes the transaction price for contracts that have not yet been recognized as revenue as of September 30, 2018 and when the Company expects to recognize the amounts as revenue (in millions):

Revenue Recognition Expected by Period			
Total	Less than 1 year	1-3 years	More than 3 years
Product	\$144.5	\$119.5	\$22.1
Service	1,031.7	705.5	292.2
Total	\$1,176.2	\$825.0	\$314.3

## Deferred Commissions

Deferred commissions were \$26.9 million as of September 30, 2018. For the three and nine months ended September 30, 2018, amortization expense for the deferred commissions was \$31.2 million and \$109.4 million, respectively. There were no impairment charges recognized during the three and nine months ended September 30, 2018.

## Other Expense, Net

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Interest income	\$18.9	\$14.7	\$49.8	\$37.1
Interest expense	(25.8)	(25.3)	(77.7)	(75.6)
(Loss) gain on investments, net	(1.9)	4.7	(1.8)	6.7
Other	0.7	0.8	(1.4)	(2.0)
Other expense, net	\$(8.1)	\$(5.1)	\$(31.1)	\$(33.8)

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 7. Restructuring Charges

## 2018 Restructuring Plan

During the third quarter of 2018, the Company initiated a restructuring plan (the "2018 Restructuring Plan") to realign its workforce as a result of organizational and leadership changes.

In connection with the 2018 Restructuring Plan, the Company recorded \$4.9 million of severance costs to restructuring charges in the Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2018. Subsequent to September 30, 2018, the Company amended the 2018 Restructuring Plan to further implement certain organizational changes resulting in a realignment of its workforce. As a result, the Company expects to record severance charges of approximately \$5.0 million related to headcount reductions in the fourth quarter of 2018 and the Company does not anticipate future charges under the 2018 Restructuring Plan.

## 2017 Restructuring Plan

During 2017, the Company initiated a restructuring plan (the "2017 Restructuring Plan") to realign its workforce and increase operational efficiencies. The 2017 Restructuring Plan consisted of severance and contract termination costs that were recorded to restructuring charges in the Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2018, the Company recorded insignificant favorable adjustments for changes in previous estimates. The 2017 Restructuring Plan is substantially complete.

Restructuring liabilities are reported within other accrued liabilities in the Condensed Consolidated Balance Sheets. The following table provides a summary of changes in the restructuring liabilities for the Company's 2018 and 2017 restructuring plans (in millions):

	December 31, 2017	Charges/ (Benefits)	Cash Payments	Other	September 30, 2018
Severance	\$ 17.7	\$ 3.3	\$ (19.3 )	\$ 0.1	\$ 1.8
Contract terminations and other	2.3	(1.0 )	(1.3 )	—	—
Total	\$ 20.0	\$ 2.3	\$ (20.6 )	\$ 0.1	\$ 1.8

The Company expects to pay the remaining restructuring liabilities by the end of the first quarter of 2019, at which time the Company would consider the 2018 Restructuring Plan to be substantially complete.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 8. Equity

## Cash Dividends on Shares of Common Stock

The following table summarizes the Company's cash dividends declared per common stock:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Cash dividends declared per common stock	\$0.18	\$0.10	\$0.54	\$0.30

The Company paid cash dividends of \$0.18 and \$0.10 per share each quarter, totaling \$187.0 million and \$113.5 million, during the nine months ended September 30, 2018 and September 30, 2017, respectively. Any future dividends, and the establishment of record and payment dates, are subject to approval by the Board of Directors (the "Board") of Juniper Networks or an authorized committee thereof. See Note 14, Subsequent Event, for discussion of the Company's dividend declaration subsequent to September 30, 2018.

## Stock Repurchase Activities

In January 2018, the Board approved a \$2.0 billion share repurchase program ("2018 Stock Repurchase Program"), including \$750.0 million to be used pursuant to an accelerated share repurchase program. The 2018 Stock Repurchase Program replaces the previous authorization approved by the Board in 2014 ("2014 Stock Repurchase Program").

As part of the 2018 Stock Repurchase Program, in February 2018, the Company entered into an accelerated share repurchase program (the "ASR") with two financial institutions to repurchase \$750.0 million of the Company's common stock. During the three months ended March 31, 2018, the Company made an up-front payment of \$750.0 million pursuant to the ASR and received an initial 23.3 million shares of the Company's common stock, based on the market value of the Company's common stock on the date of the transaction. During the three months ended September 30, 2018, the ASR was completed and an additional 6.0 million shares were received from the financial institutions for a total repurchase of 29.3 million shares of the Company's common stock at a volume weighted average repurchase price, less an agreed upon discount, of \$25.62 per share. The shares received with respect to the ASR were retired and accounted for as a reduction to stockholders' equity in the Condensed Consolidated Balance Sheets.

The following table summarizes the Company's stock repurchases and retirements under its stock repurchase programs (in millions, except per share amounts):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(1)	(2)	(1)	(2)
Shares repurchased	6.0	5.0	29.3	13.5
Average price per share	\$25.62	\$28.16	\$25.62	\$28.85
Amount repurchased	\$—	\$140.0	\$750.0	\$390.0

---

(1) Shares repurchased under the 2018 Stock Repurchase Program. \$750.0 million represents the full amount of the ASR for which 23.3 million shares were received initially during the first quarter of 2018, and an additional 6.0 million shares were received at final settlement during the third quarter of 2018.

(2) Shares repurchased under the 2014 Stock Repurchase Program.

As of September 30, 2018, there were \$1.3 billion of authorized funds remaining under the 2018 Stock Repurchase Program.

Future share repurchases under the 2018 Stock Repurchase Program will be subject to a review of the circumstances 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. The Company's 2018 Stock Repurchase Program may be discontinued at any time.



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Accumulated Other Comprehensive Loss, Net of Tax

The components of accumulated other comprehensive loss, net of related taxes, for the nine months ended September 30, 2018 were as follows (in millions):

	Unrealized Gains/Losses on Available-for- Sale Debt Securities <sup>(1)</sup>	Unrealized Gains/Losses on Cash Flow Hedges <sup>(2)</sup>	Foreign Currency Translation Adjustments	Total
Balance as of December 31, 2017	\$ 19.0	\$ 6.0	\$ (30.4 )	\$(5.4 )
Other comprehensive loss before reclassifications	(0.6 )	(5.9 )	(13.7 )	(20.2 )
Amount reclassified from accumulated other comprehensive loss	0.9	(5.5 )	—	(4.6 )
Other comprehensive income (loss), net	0.3	(11.4 )	(13.7 )	(24.8 )
Reclassification of tax effects upon adoption of ASU 2018-02	5.0	0.7	—	5.7
Balance as of September 30, 2018	\$ 24.3	\$ (4.7 )	\$ (44.1 )	\$(24.5)

The reclassifications out of accumulated other comprehensive loss during the nine months ended September 30, 2018 for realized gains/losses on available-for-sale debt securities were included in other expense, net, in the Condensed Consolidated Statements of Operations and were not material.

The reclassifications out of accumulated other comprehensive loss during the nine months ended September 30, 2018 for realized gains/losses on cash flow hedges were included within cost of revenues, research and development, sales and marketing, and general and administrative in the Condensed Consolidated Statements of Operations and were not material individually.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 9. Employee Benefit Plans

## Equity Incentive Plans

The Company has stock-based compensation plans pursuant to which it has granted stock options, restricted stock units ("RSUs"), and performance share awards ("PSAs"). The Company also maintains its 2008 Employee Stock Purchase Plan (the "ESPP") for all eligible employees.

As of September 30, 2018, 23.3 million and 8.7 million shares were available for future issuance under the Company's 2015 Equity Incentive Plan (the "2015 Plan") and the ESPP, respectively.

## Stock Option Activities

The following table summarizes the Company's stock option activity and related information as of and for the nine months ended September 30, 2018 (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 as of December 31, 2017	0.9	\$ 34.41		
Exercised	(0.1)	4.20		
Expired/Canceled	(0.7)	40.34		
Balance as of September 30, 2018	0.1	\$ 19.80	1.9	\$ 1.2
As of September 30, 2018:				
Vested and expected-to-vest options	0.1	\$ 19.80	1.9	\$ 1.2
Exercisable options	0.1	\$ 22.24	1.0	\$ 0.8

## Restricted Stock Unit and Performance Share Award Activities

The Company's RSU and PSA activity and related information as of and for the nine months ended September 30, 2018 were as follows (in millions, except per share amounts and years):

	Outstanding RSUs and PSAs <sup>(4)</sup>			
	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Balance as of December 31, 2017	19.5	\$ 25.39		
RSUs granted <sup>(1)(3)</sup>	6.5	25.36		
PSAs granted <sup>(2)(3)</sup>	0.7	24.43		
RSUs vested	(5.4)	25.43		
PSAs vested	(1.1)	24.14		

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

RSUs canceled	(1.5 )	26.34		
PSAs canceled	(0.7 )	24.39		
Balance as of September 30, 2018	18.0	\$ 25.37	1.1	\$ 538.8

---

Includes service-based and market-based RSUs. The number of shares subject to market-based condition represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term.

- (1) The aggregate number of shares subject to market-based condition that would be issued if market criteria determined by the Compensation Committee of the Board are achieved at target is 0.1 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is zero to 0.3 million shares.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 of the Board are achieved at target is 0.4 million shares. Depending on achievement of such performance goals, the range of shares that could be issued under these awards is zero to 0.7 million shares.

The grant date fair value of RSUs and PSAs were reduced by the present value of dividends expected to be paid on the underlying shares of common stock during the requisite and derived service period as these awards are not entitled to receive dividends until vested. During the nine months ended September 30, 2018, the Company declared a quarterly cash dividend of \$0.18 per share of common stock on January 30, 2018, May 2, 2018, and July 26, 2018.

2.0 million shares of PSAs were modified during the nine months ended September 30, 2018, which relate primarily to PSAs assumed by the Company in connection with acquisitions consummated in 2016. These awards are contingent upon the achievement of certain performance milestones. Compensation cost resulting from the modifications totaled \$6.3 million to be recognized over the remaining terms of the modified awards.

## Employee Stock Purchase Plan

The following table summarizes employee stock purchases through the ESPP (in millions, except per share amounts):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Shares purchased	1.2	1.2	2.5	2.7
Average exercise price per share	\$22.39	\$22.79	\$22.31	\$20.83

On November 6, 2017, the Company's Compensation Committee amended and restated the ESPP to provide that the offering period that began on February 1, 2018 would be for 24 months with four 6-month purchase periods. A new 24-month offering period will commence every six months thereafter. The purchase price for the Company's common stock under the ESPP is 85% of the lower of the fair market value of the shares at (1) the beginning of the applicable offering period or (2) the end of each 6-month purchase period during such offering period. The ESPP will continue in effect until February 25, 2028, unless terminated earlier under the provisions of the ESPP.

## Share-Based Compensation Expense

Share-based compensation expense associated with stock options, RSUs, restricted stock awards ("RSAs"), PSAs, and the ESPP was recorded in the following cost and expense categories in the Condensed Consolidated Statements of Operations (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Cost of revenues - Product	\$1.5	\$1.5	\$5.1	\$3.8
Cost of revenues - Service	4.5	3.9	14.2	13.5
Research and development	28.1	18.5	101.8	67.4

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Sales and marketing	12.9	13.7	40.4	45.3
General and administrative	6.2	7.4	18.7	21.1
Total	\$53.2	\$45.0	\$180.2	\$151.1

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Stock options	\$0.1	\$0.2	\$0.3	\$0.5
RSUs, RSAs, and PSAs	48.2	41.0	165.8	138.9
ESPP	4.9	3.8	14.1	11.7
Total	\$53.2	\$45.0	\$180.2	\$151.1

As of September 30, 2018, the total unrecognized compensation cost related to unvested share-based awards was \$320.2 million to be recognized over a weighted-average period of 1.6 years.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 10. Segments

The Company operates in one reportable segment. The Company's chief executive officer, who is the chief operating decision maker, reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance, accompanied by disaggregated information about net revenues by product and service, customer vertical, and geographic region as presented below.

The following table presents net revenues by product and service (in millions):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2018	2017	2018	2017
Routing	\$496.4	\$585.8	\$1,395.1	\$1,679.9
Switching	221.1	212.6	705.9	730.2
Security	77.2	71.3	229.4	205.7
Total product	794.7	869.7	2,330.4	2,615.8
Total service	385.1	388.1	1,136.1	1,171.9
Total	\$1,179.8	\$1,257.8	\$3,466.5	\$3,787.7

The following table presents net revenues by customer vertical (in millions):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2018	2017	2018	2017
Cloud	\$250.0	\$344.9	\$798.1	\$1,056.1
Service Provider	543.6	576.9	1,546.8	1,707.8
Enterprise	386.2	336.0	1,121.6	1,023.8
Total	\$1,179.8	\$1,257.8	\$3,466.5	\$3,787.7

The Company attributes revenues to geographic region based on the customer's shipping address. The following table presents net revenues by geographic region (in millions):

	Three Months		Nine Months	
	Ended September		Ended September	
	30,		30,	
	2018	2017	2018	2017
Americas:				
United States	\$597.1	\$668.8	\$1,754.2	\$2,076.0
Other	46.0	60.4	152.2	165.6
Total Americas	643.1	729.2	1,906.4	2,241.6
Europe, Middle East, and Africa	329.9	298.6	946.8	871.3
Asia Pacific	206.8	230.0	613.3	674.8
Total	\$1,179.8	\$1,257.8	\$3,466.5	\$3,787.7



Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 11. Income Taxes

The following table provides details of income taxes (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income before income taxes	\$152.0	\$225.8	\$344.3	\$611.6
Income tax (benefit) provision	\$(71.8)	\$60.1	\$(30.4)	\$157.3
Effective tax (benefit) rate	(47.2)%	26.6%	(8.8)%	25.7%

The Company's effective tax rate during the three and nine months ended September 30, 2018 differs from the federal statutory rate of 21%, primarily due to the recognition of certain previously unrecognized tax benefits of \$67.6 million, which includes interest of \$8.4 million, a reduction of expected tax liabilities of \$33.2 million, federal research and development credits and a favorable change in the forecasted geographic mix of earnings. The recognition of \$67.6 million in previously unrecognized tax benefits is due to a lapse in the federal statute of limitations relative to fiscal years 2010 through 2014. The reduction of expected tax liabilities of \$33.2 million is a result of filing a change in accounting method for the tax recognition of deferred product revenue in the U.S. to better align with the financial statement recognition of such revenue.

The Tax Act enacted on December 22, 2017 introduced significant changes to U.S. income tax law. Effective January 1, 2018, the Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21% and created a minimum tax on foreign earnings.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company made reasonable estimates of the effects and recorded provisional amounts in the financial statements as of December 31, 2017. While the Company believes it has largely completed its analysis and related impacts of the Tax Act, the Company expects further guidance from revenue and taxation authorities in the fourth quarter of 2018, particularly from state authorities, which may impact the tax effects. As a result, the Company may make adjustments to the provisional amounts which may materially impact its provision for income taxes from continuing operations in the period in which the adjustments are made. The Company will complete the accounting for the tax effects of the Tax Act in the fourth quarter of 2018.

The Tax Act also includes provisions to tax Global Intangible Low-Taxed Income ("GILTI") of foreign subsidiaries in excess of a deemed return on their tangible assets. The Company anticipates further guidance in the form of tax regulations to be issued by the U.S. Treasury in the fourth quarter of 2018, regarding the utilization of foreign tax credits relative to GILTI. Due to the complexities of the new provisions and the anticipated regulations referenced above, the Company is continuing to evaluate how the provisions will be accounted for under U.S. GAAP. Pursuant to the Tax Act, corporations are allowed to make an accounting policy election to either (i) account for GILTI as a component of income tax expense in the period in which the corporation is subject to the rules (the "period cost method"), or (ii) account for GILTI in the corporation's measurement of deferred taxes (the "deferred method"). The Company has not currently elected a method and will do so after completing its analysis of the GILTI provisions of the Tax Act depending on the analysis of the Company's global income. Therefore, the Company has not recorded any potential deferred tax effects related to GILTI in its financial statements and has not yet made an accounting policy election regarding whether to record deferred taxes on GILTI or use the period cost method. The Company has, however, included an estimate of the current GILTI impact in its annual effective tax rate for 2018. The Company



expects to complete the accounting during the measurement period.

As of September 30, 2018, the total amount of gross unrecognized tax benefits was \$205.0 million, of which \$183.3 million, if recognized, would affect the effective tax rate.

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 unrecognized tax benefits could decrease up to \$7.9 million within the next twelve months due to lapses of applicable statutes of limitations and the completion of tax review cycles in various tax jurisdictions.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

## Note 12. Net Income per Share

The Company computed basic and diluted net income per share as follows (in millions, except per share amounts):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Numerator:				
Net income	\$223.8	\$165.7	\$374.7	\$454.3
Denominator:				
Weighted-average shares used to compute basic net income per share	346.2	378.3	350.1	380.0
Dilutive effect of employee stock awards	4.3	4.4	5.1	6.5
Weighted-average shares used to compute diluted net income per share	350.5	382.7	355.2	386.5
Net income per share				
Basic	\$0.65	\$0.44	\$1.07	\$1.20
Diluted	\$0.64	\$0.43	\$1.05	\$1.18
Anti-dilutive shares	4.2	1.0	5.0	1.2

## Note 13. Commitments and Contingencies

## Commitments

Except for the items below, there have been no material changes to the Company's commitments compared to the commitments described in Note 16, Commitments and Contingencies, in Notes to Consolidated Financial Statements in Item 8 of Part II of the Form 10-K.

## Purchase Commitments with Contract Manufacturers and Suppliers

In order to reduce manufacturing lead times and in the interest of having access to adequate component supply, the Company enters into agreements with contract manufacturers and certain suppliers to procure inventory based on the Company's requirements. A significant portion of the Company's purchase commitments arising from these agreements consists of firm and non-cancelable commitments. These purchase commitments totaled \$610.9 million as of September 30, 2018.

The Company establishes a liability in connection with purchase commitments related to quantities in excess of its demand forecasts or obsolete materials charges for components purchased by the contract manufacturers based on the Company's demand forecast or customer orders. As of September 30, 2018, the Company had accrued \$23.6 million based on its estimate of such charges.

## 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 solely, or in combination with other third party products, infringe the intellectual property rights of a third-party. As of September 30, 2018 and December 31, 2017, the Company recorded \$12.0 million and \$20.4 million, respectively, for such indemnification obligations in other

accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Table of Contents

Juniper Networks, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Legal Proceedings

Investigations

The Company previously disclosed that it has been the subject of investigations by the U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ") into possible violations by the Company of the U.S. Foreign Corrupt Practices Act ("FCPA"). In cooperation with these investigations, the Company and the Audit Committee of the Board of Directors, with the assistance of outside counsel and other independent advisors, conducted a thorough internal investigation. As a result of its internal investigation, the Company made significant improvements in its internal controls and carried out a number of disciplinary actions. In the fourth quarter of 2017, the DOJ notified the Company that the DOJ has closed its investigation related to these matters without taking any action against the Company. The Company is continuing to fully cooperate with the SEC's ongoing investigation, and based on the Company's recent communications with the Staff of the SEC, the Company believes that it is likely that the Staff of the SEC will seek to bring an enforcement action against the Company. The Company believes it is probable that it could incur a loss and has established an estimated legal reserve of \$12.0 million related to the ongoing SEC investigation; however, as discussions are continuing, there can be no assurance as to the timing or the terms of any final resolution of this matter.

Other Litigations and Investigations

In addition to the investigations discussed above, the Company is involved in other investigations, disputes, litigations, and legal proceedings. The Company records an accrual for loss contingencies for legal proceedings when it believes that an unfavorable outcome is both (a) probable and (b) the amount or range of any possible loss is reasonably estimable. The Company intends to aggressively defend itself in these matters, and while there can be no assurances and the outcome of these matters is currently not determinable, the Company currently believes that none of these existing claims or proceedings are likely to have a material adverse effect on its financial position. Notwithstanding the foregoing, there are many uncertainties associated with any litigation and these matters or other third-party claims against the Company may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If any of those events were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected. The actual liability in any such matters may be materially different from the Company's estimates, if any, which could result in the need to adjust the liability and record additional expenses.

Note 14. Subsequent Event

Dividend Declaration

On October 23, 2018, the Company announced that it had declared a cash dividend of \$0.18 per share of common stock payable on December 26, 2018 to stockholders of record as of the close of business on December 5, 2018.

Table of Contents

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

This Quarterly Report on Form 10-Q, which we refer to as the Report, including “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., which we refer to as “we,” “us,” “Juniper,” or the “Company,” that are based on our current expectations, estimates, forecasts, and projections about our business, economic and market outlook, 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,” “will,” “could,” “may,” “intends,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled “Risk Factors” in Item 1A of Part II and elsewhere, and in other reports we file with the U.S. Securities and Exchange Commission, or the SEC. 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, except as required by applicable law.

The following discussion is based upon our unaudited Condensed Consolidated Financial Statements included in Part I, Item I, of this Report, which have been prepared in accordance with U.S. generally accepted accounting principles, or 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. 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. Each of these decisions has some impact on the financial results for any given period.

To aid in understanding our operating results for the periods covered by this Report, we have provided an executive overview, which includes a summary of our business and market environment along with a financial results and key performance metrics overview. These sections should be read in conjunction with the more detailed discussion and analysis of our condensed consolidated financial condition and results of operations in this Item 2, our “Risk Factors” section included in Item 1A of Part II of this Report, and our unaudited Condensed Consolidated Financial Statements and Notes included in Item 1 of Part I of this Report, as well as our audited Consolidated Financial Statements and Notes included in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, or Form 10-K.

Business and Market Environment

Juniper designs, develops, and sells products and services for high-performance networks to enable customers to build scalable, reliable, secure and cost-effective networks for their businesses, while achieving agility, efficiency and value through automation.

Our products are sold in three geographic regions: Americas; Europe, Middle East, and Africa, or EMEA; and Asia Pacific, or APAC. We sell our high-performance network products and service offerings across routing, switching, and security technologies. In addition to our products, we offer our customers services, including maintenance and support, professional services, and education and training programs. We believe our silicon, systems, and software represent innovations that transform the economics and experience of networking, helping our customers achieve superior performance, greater choice, and flexibility, while reducing overall total cost of ownership.

Further, our intent is to lead in the area of software solutions that simplify the operation of networks, and to allow our customers across our key verticals to deliver further value through their networks. We anticipate that our increased focus on software business models will result in an increase in software revenues as a percentage of total revenues over time.

Effective the first quarter of 2018, we revised the naming convention of our key customer verticals as follows:

• Telecom/Cable is now referred to as 'Service Provider'

• Strategic Enterprise is now referred to as 'Enterprise'

• Cloud remains unchanged

Types of customers included in the key verticals remain unchanged.

## Table of Contents

We are focused on and continue to see significant opportunities from the implementation of cloud architectures, such as large public and private data centers, as well as distributed cloud infrastructure, which resides in multiple, distributed data centers in order to place applications or services closer to end users, such as enabling security and "network-as-a-service."

We believe the network needs for our customers in our Service Provider, Cloud, and Enterprise verticals are converging, as these customers recognize the need for high performance networks and leveraging the cloud for improved agility and greater levels of operating efficiency.

As these customers continue to grow, we believe their network architectures will continue to evolve. We believe our understanding of high performance networking technology and our strategy position us to capitalize on the industry transition to more automated, cost-efficient, scalable networks.

We believe that certain large Cloud customers are transitioning their wide area networks from a scale-up to a scale-out architecture as they continue to add capacity. This has resulted in, and we expect this may continue to result in, a transition of these customers from purchasing our MX product family to our PTX product family. In addition, the slow pace of deployments at certain large Cloud customers has led to a near-term slowdown in our net revenues.

Despite these ongoing architectural shifts and deployment delays, we remain confident in our competitive position and strong relationships with these strategic customers. Our overall strategy with our Cloud customers has not changed and we continue to execute against our innovation roadmap, which includes our plan to continue to grow our relevance and our business in the Cloud vertical.

## Innovations

During the third quarter of 2018, we continued to execute on our product strategy. We announced innovations across our PTX, QFX, and MX series of products. We believe the new technology will help Service Provider, Cloud, and Enterprise customers recalibrate network economics as they transition to 400G to lower cost-per-bit while keeping up with increasing bandwidth demands from next generation mobile network build-outs, or 5G, augmented and virtual reality, cloud, and 4K video production and distribution. We also upgraded our services processing card (SPC3 Advanced Security Acceleration card) that can improve performance by as much as eleven times to our SRX5000 line of Services Gateways across a variety of key performance metrics, helping Service Providers, Cloud providers, and Enterprises meet the demands of multicloud; Internet of Things, or IoT; 5G; and the enterprise edge, while continuing to provide customers investment protection with their SPC2 installed base. We also announced Contrail Edge Cloud that allows Service Providers to cost effectively deploy new services to the space and power-constrained network edge. It virtualizes compute, storage, and networking resources efficiently and economically in lightweight edge environments such as central offices, base stations, hubs, and switching sites. Moreover, we recently introduced our software-based Contrail Enterprise Multicloud solution, which began shipping in third quarter of 2018. We are seeing strong customer adoption as our Enterprise customers migrate to multicloud solutions for end-to-end policy, control, and visibility.

## Partnerships

In the third quarter of 2018, we also announced new and expanding partnerships with companies like Nutanix and Ericsson, which we expect will help strengthen our ability to capitalize on multicloud and 5G initiatives and drive our competitive advantage in the marketplace.

## Tariffs

The United States, or U.S., government imposed a 10% tariff effective September 24, 2018, on certain goods imported from China, which affects certain products that we import. The tariff rate is scheduled to increase to 25% on January 1, 2019. At this time, the imposition of the 10% tariff is not expected to have a material direct impact on our fourth quarter 2018 financial results due to (1) only certain products that we import are subject to tariffs and (2) we intend to attempt to mitigate the impact of any cost increases by passing along such increases to our partners and customers. The currently scheduled rate increase to 25% in 2019 could have a significant impact to our gross margins in the event we are unable to meaningfully mitigate the impact of the higher tariffs. For more information on the risk factors affecting our business, see the “Risk Factors” section of Item 1A of Part II of this Report.



Table of Contents

## Financial Results and Key Performance Metrics Overview

On January 1, 2018, we adopted Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, No. 2014-09 (Topic 606) - Revenue from Contracts with Customers, which we refer to as Topic 606. The standard provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, which we refer to as Topic 605, and most industry specific guidance. See Note 2, Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report for further discussion on the adoption of Topic 606. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605.

The following table provides an overview of our financial results and key financial metrics (in millions, except per share amounts, percentages, and days sales outstanding, or DSO):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Net revenues	\$1,179.8	\$1,257.8	\$(78.0)	(6)%	\$3,466.5	\$3,787.7	\$(321.2)	(8)%
Gross margin	\$711.0	\$772.4	\$(61.4)	(8)%	\$2,030.3	\$2,320.9	\$(290.6)	(13)%
Percentage of net revenues	60.3%	61.4%			58.6%	61.3%		
Operating income	\$160.1	\$230.9	\$(70.8)	(31)%	\$375.4	\$645.4	\$(270.0)	(42)%
Percentage of net revenues	13.6%	18.4%			10.8%	17.0%		
Net income	\$223.8	\$165.7	\$58.1	35%	\$374.7	\$454.3	\$(79.6)	(18)%
Percentage of net revenues	19.0%	13.2%			10.8%	12.0%		
Net income per share:								
Basic	\$0.65	\$0.44	\$0.21	48%	\$1.07	\$1.20	\$(0.13)	(11)%
Diluted	\$0.64	\$0.43	\$0.21	49%	\$1.05	\$1.18	\$(0.13)	(11)%
Cash dividends declared per common stock	\$0.18	\$0.10	\$0.08	80%	\$0.54	\$0.30	\$0.24	80%
Operating cash flows					\$648.7	\$1,046.7	\$(398.0)	(38)%
Stock repurchase plan activity	\$—	\$140.0	\$(140.0)	(100)%	\$750.0	\$390.0	\$360.0	92%
DSO	49	52	(3)	(6)%				
					September 30, 2018	December 31, 2017	\$ Change	% Change
Deferred revenue					\$1,165.3	\$1,539.3	\$(374.0)	(24)%
Product deferred revenue					\$133.6	\$334.2	\$(200.6)	(60)%
Service deferred revenue					\$1,031.7	\$1,205.1	\$(173.4)	(14)%

Net Revenues: Net revenues decreased during the three months ended September 30, 2018, compared to the same period in 2017, primarily due to lower routing revenues in Cloud reflecting the networking architectural shifts for certain large Cloud customers and a slower than expected pace of deployments. This was partially offset by an increase in Enterprise revenues driven by demand for our new MX solutions. Of our top ten customers for the third quarter of 2018, five were Cloud, four were Service Provider, and one was in Enterprise. Of these customers, two were located outside of the U.S. Net revenues decreased during the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to lower routing revenues from our Cloud vertical in the Americas, resulting from the networking architectural shifts and slower than expected pace of deployments. Excluding the impact of Topic 606, our service net revenues would have increased during the three and nine months ended September 30,

2018, compared to the same periods in 2017, primarily due to strong renewal and attach rates of support contracts.

For the three and nine months ended September 30, 2018, the adoption of Topic 606 resulted in a decrease in revenue recognition of \$4.6 million and \$19.5 million, respectively, due to lower service revenues, partly offset by higher product revenues. Product revenues during the three and nine months ended September 30, 2018 were higher by \$22.8 million and \$80.7 million, respectively, under Topic 606, compared to Topic 605, primarily due to the impact of revenue allocation between products and services, timing of revenue recognition from sales to distributors, and variable consideration. The

## Table of Contents

product revenues increase from Topic 606 was allocated among all product categories. Service revenues during the three and nine months ended September 30, 2018 were lower by \$27.4 million and \$100.2 million, respectively, under Topic 606, compared to Topic 605, primarily due to the impact of revenue allocation between products and services, and due to certain contractual clauses. We believe the adoption of Topic 606 will continue to impact the allocation of revenues between product and service.

**Gross Margin:** Our gross margin as a percentage of net revenues decreased during the three and nine months ended September 30, 2018, compared to the same periods in 2017, primarily due to lower net revenues and product mix.

**Operating Margin:** Our operating income as a percentage of net revenues decreased during the three and nine months ended September 30, 2018, compared to the same periods in 2017, primarily due to the drivers described in the gross margin discussion above, partially offset by a net decrease in our operating expenses during the nine months ended September 30, 2018, compared to the same period in 2017, as a result of lower restructuring charges.

**Operating Cash Flows:** Net cash provided by operations decreased during the nine months ended September 30, 2018, compared to the same period in 2017. The decrease was primarily due to higher cash collections from customers during the first nine months of 2017 related to service renewals invoiced during the fourth quarter of 2016, and an increase in cash paid during 2018 for income taxes, primarily due to the first of eight annual transition tax payments related to the U.S. Tax Cuts and Jobs Act, or the Tax Act. These decreases in cash flows were partially offset by a decline in cash paid for personnel-related costs, principally as a result of a reduction in headcount and lower incentive compensation.

**Capital Return:** Pursuant to our \$750.0 million accelerated share repurchase program, or ASR, we made an upfront payment of \$750.0 million and received and retired 23.3 million shares of our common stock during the first quarter of 2018. During the third quarter of 2018, the ASR was completed, and we received and retired an additional 6.0 million shares for a total repurchase of 29.3 million shares. During the three and nine months ended September 30, 2018, we also paid a quarterly cash dividend of \$0.18 per share, for an aggregate amount of \$62.1 million and \$187.0 million, respectively.

**DSO:** DSO is calculated as the ratio of ending accounts receivable, net of allowances, divided by average daily net revenues for the preceding 90 days. DSO for the third quarter of 2018 decreased, compared to the same period in 2017, primarily due to lower overall invoicing volume and lower revenues.

**Deferred Revenue:** Total deferred revenue decreased as of September 30, 2018, compared to December 31, 2017, due to the impact of adoption of Topic 606. See Note 2, Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part 1 of this Report, for further discussion.

## 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. On an ongoing basis, we evaluate our estimates and assumptions. 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, revenues, and expenses that are not readily apparent from other sources.

During the nine months ended September 30, 2018, except for the change in accounting estimates related to the adoption of Topic 606 described below and changes in certain accounting policies described in Note 2, Summary of

Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, there were no other material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Form 10-K.

Table of Contents

Revenue Recognition: We enter into contracts to sell our products and services, and while some of our sales agreements contain standard terms and conditions, there are agreements that contain non-standard terms and conditions and include promises to transfer multiple goods or services. As a result, significant interpretation and judgment is sometimes required to determine the appropriate accounting for these transactions including: (1) whether performance obligations are considered distinct that should be accounted for separately versus together and how the price should be allocated among the performance obligations and when to recognize revenue for each performance obligation; (2) developing an estimate of the stand-alone selling price, or SSP, of each distinct performance obligation; (3) combining contracts that may impact the allocation of the transaction price between product and services; and (4) estimating and accounting for variable consideration, including rights of return, rebates, price protection, expected penalties or other price concessions as a reduction of the transaction price.

Our estimates of SSP for each performance obligation requires judgment that considers multiple factors, including, but not limited to, historical discounting trends for products and services, pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies, and industry technology lifecycles. Our estimates for rights of return, rebates, and price protection are based on historical sales returns and price protection credits, specific criteria outlined in customer contracts or rebate agreements, and other factors known at the time. Our estimates for expected penalties and other price concessions are based on historical trends and expectations regarding future incurrence.

Changes in judgments with respect to these assumptions and estimates could impact the timing or amount of revenue recognition.

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 Report, for a full description of the recently adopted accounting standards and recent accounting standards not yet adopted, including the actual and expected dates of adoption and estimated effects on our consolidated results of operations and financial condition, which is incorporated herein by reference.

Table of Contents

## Results of Operations

## Revenues

The following table presents net revenues by product and service, customer vertical, and geographic region (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$	%	2018	2017	\$	%
			Change	Change			Change	Change
Routing	\$496.4	\$585.8	\$(89.4)	(15)%	\$1,395.1	\$1,679.9	\$(284.8)	(17)%
Switching	221.1	212.6	8.5	4%	705.9	730.2	(24.3)	(3)%
Security	77.2	71.3	5.9	8%	229.4	205.7	23.7	12%
Total Product	794.7	869.7	(75.0)	(9)%	2,330.4	2,615.8	(285.4)	(11)%
Percentage of net revenues	67.4%	69.1%			67.2%	69.1%		
Total Service	385.1	388.1	(3.0)	(1)%	1,136.1	1,171.9	(35.8)	(3)%
Percentage of net revenues	32.6%	30.9%			32.8%	30.9%		
Total net revenues	\$1,179.8	\$1,257.8	\$(78.0)	(6)%	\$3,466.5	\$3,787.7	\$(321.2)	(8)%
Cloud	\$250.0	\$344.9	\$(94.9)	(28)%	\$798.1	\$1,056.1	\$(258.0)	(24)%
Percentage of net revenues	21.2%	27.4%			23.0%	27.9%		
Service Provider	543.6	576.9	(33.3)	(6)%	1,546.8	1,707.8	(161.0)	(9)%
Percentage of net revenues	46.1%	45.9%			44.6%	45.1%		
Enterprise	386.2	336.0	50.2	15%	1,121.6	1,023.8	97.8	10%
Percentage of net revenues	32.7%	26.7%			32.4%	27.0%		
Total net revenues	\$1,179.8	\$1,257.8	\$(78.0)	(6)%	\$3,466.5	\$3,787.7	\$(321.2)	(8)%
Americas:								
United States	\$597.1	\$668.8	\$(71.7)	(11)%	\$1,754.2	\$2,076.0	\$(321.8)	(16)%
Other	46.0	60.4	(14.4)	(24)%	152.2	165.6	(13.4)	(8)%
Total Americas	643.1	729.2	(86.1)	(12)%	1,906.4	2,241.6	(335.2)	(15)%
Percentage of net revenues	54.5%	58.0%			55.0%	59.2%		
EMEA	329.9	298.6	31.3	10%	946.8	871.3	75.5	9%
Percentage of net revenues	28.0%	23.7%			27.3%	23.0%		
APAC	206.8	230.0	(23.2)	(10)%	613.3	674.8	(61.5)	(9)%
Percentage of net revenues	17.5%	18.3%			17.7%	17.8%		
Total net revenues	\$1,179.8	\$1,257.8	\$(78.0)	(6)%	\$3,466.5	\$3,787.7	\$(321.2)	(8)%

Three Months Ended September 30, 2018 compared with the Three Months Ended September 30, 2017

Product net revenues decreased during the three months ended September 30, 2018, compared to the same period in 2017, due to a decrease in revenues from our routing products, partially offset by higher revenues from switching, driven by the impact of the adoption of Topic 606, and growth in security.

The year-over-year decrease in routing revenues was primarily due to our Cloud vertical in the Americas, and to a lesser extent, Service Provider in APAC. The decline was partially offset by strength in Enterprise in the Americas and EMEA, and to a lesser extent, the impact of the adoption of Topic 606. The decline in revenues from Cloud reflects the networking architectural shifts for certain large Cloud customers and a slower than expected pace of deployments. We remain confident in our competitive position with our strategic Cloud customers; however, the pace of deployments is difficult to predict. Enterprise benefited from a diverse base of customers and the increase in

revenues was driven by demand for new solutions such as the MX 204 and MX 10003, which are contributing to our growth in new market segments. Revenues from our PTX and MX series of products declined year-over-year. For PTX, the decline was primarily due to the pace of deployments for certain large Cloud customers. We believe PTX sales

35

---

Table of Contents

will increase as incremental capacity requirements eventually drive improved demand; however, we are unable to predict the exact timing.

The increase in switching revenues during the three months ended September 30, 2018, compared to the same period in 2017, was driven by the impact of Topic 606. Revenues from our EX series of products increased year-over-year. Revenues from our QFX series of products declined year-over-year and remain under pressure due to the timing of certain large scale Cloud deployments.

Security net revenues increased year-over-year across all verticals as customers transitioned to our newer product offerings.

Service net revenues decreased during the three months ended September 30, 2018, compared to the same period in 2017, due to the impact of Topic 606. Excluding the impact of Topic 606, our service net revenues would have increased year-over-year, primarily due to strong renewal and attach rates of support contracts. As a result of Topic 606, we expect that our service net revenues will see a decrease for the full year 2018 compared to 2017.

Nine Months Ended September 30, 2018 compared with the Nine Months Ended September 30, 2017

Product net revenues decreased during the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to Cloud and Service Provider, impacting routing and switching in the Americas. The decrease in product revenues was partially offset by the impact of Topic 606 and growth in security.

The decrease in routing and switching revenues in the Americas was due to the networking architectural shifts for certain large Cloud customers and slower than expected pace of deployments, resulting in lower revenues from our MX, PTX, and QFX product families. This was partially offset by higher revenues in EMEA, as well as strong growth in Enterprise.

We experienced growth in revenues from our security business during the nine months ended September 30, 2018, compared to the same period in 2017, across all verticals as customers transitioned to our newer product offerings. We expect that our security business will see year-over-year growth for the full year 2018.

Service net revenues decreased during the nine months ended September 30, 2018, compared to the same period in 2017, due to the impact of Topic 606. Excluding the impact of Topic 606, our service net revenues would have increased year-over-year, driven primarily by strong renewal and attach rates of support contracts.

**Gross Margins**

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$	%	2018	2017	\$	%
			Change	Change			Change	Change
Product gross margin	\$482.2	\$533.7	\$(51.5)	(10)%	\$1,374.9	\$1,589.4	\$(214.5)	(13)%
Percentage of product revenues	60.7%	61.4%			59.0%	60.8%		
Service gross margin	228.8	238.7	(9.9)	(4)%	655.4	731.5	(76.1)	(10)%
Percentage of service revenues	59.4%	61.5%			57.7%	62.4%		
Total gross margin	\$711.0	\$772.4	\$(61.4)	(8)%	\$2,030.3	\$2,320.9	\$(290.6)	(13)%
Percentage of net revenues	60.3%	61.4%			58.6%	61.3%		



Our gross margins as a percentage of net revenues have been and will continue to be affected by a variety of factors, including the mix and average selling prices of our products and services, new product introductions and enhancements, manufacturing, component and logistics costs, expenses for inventory obsolescence and warranty obligations, cost of support and service personnel, customer mix as we continue to expand our footprint with certain strategic customers, and the mix of distribution channels through which our products and services are sold. Additionally, our gross margins for the fourth quarter 2018 could be slightly impacted by the recently imposed China tariffs. While we plan to continue our efforts to attempt to mitigate the impact of tariffs, the currently scheduled rate increase to 25% in 2019 could have a significant impact to our gross margins in the event we are unable to meaningfully mitigate the impact of the tariffs.

Table of Contents

Three Months Ended September 30, 2018 compared with the Three Months Ended September 30, 2017

## Product gross margin

Product gross margin as a percentage of product revenues decreased during the three months ended September 30, 2018, compared to the same period in 2017, primarily due to product mix, partially offset by the impact of Topic 606. We continue to undertake specific efforts to address certain factors impacting our product gross margin. These efforts include performance and quality improvements through engineering to increase value across our products; optimizing our supply chain and service business; pricing management; and increasing software and solution sales; however, there can be no guarantee that these efforts will be successful or that they will be realized in the time frame we anticipate.

## Service gross margin

Service gross margin as a percentage of service net revenues decreased during the three months ended September 30, 2018, compared to the same period in 2017, primarily due to lower revenues from the impact of Topic 606 and higher professional services costs to support our software deployments.

Nine Months Ended September 30, 2018 compared with the Nine Months Ended September 30, 2017

## Product gross margin

Product gross margin as a percentage of product revenues decreased during the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to product mix, partially offset by the impact of Topic 606.

## Service gross margin

Service gross margin as a percentage of service net revenues decreased during the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to lower revenues from the impact of Topic 606, increased professional services costs to support our software deployments, and higher service delivery costs.

## Operating Expenses

The following table presents operating expenses (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$	%	2018	2017	\$	%
			Change	Change			Change	Change
Research and development	\$253.8	\$236.4	\$ 17.4	7 %	\$772.0	\$752.8	\$ 19.2	3 %
Percentage of net revenues	21.5 %	18.8 %			22.3 %	19.9 %		
Sales and marketing	224.8	232.5	(7.7 )	(3 )%	702.5	716.6	(14.1 )	(2 )%
Percentage of net revenues	19.0 %	18.5 %			20.2 %	18.9 %		
General and administrative	67.9	70.6	(2.7 )	(4 )%	178.1	176.7	1.4	1 %
Percentage of net revenues	5.8 %	5.6 %			5.1 %	4.6 %		
Restructuring charges	4.4	2.0	2.4	120 %	2.3	29.4	(27.1 )	(92 )%
Percentage of net revenues	0.4 %	0.2 %			0.1 %	0.8 %		
Total operating expenses	\$550.9	\$541.5	\$ 9.4	2 %	\$1,654.9	\$1,675.5	\$(20.6)	(1 )%
Percentage of net revenues	46.7 %	43.1 %			47.7 %	44.2 %		

Three Months Ended September 30, 2018 compared with the Three Months Ended September 30, 2017

During the three months ended September 30, 2018, compared to the same period in 2017, total operating expenses increased primarily due to higher personnel-related expenses, driven by an increase in share-based compensation expense, specifically in research and development, or R&D, and higher variable compensation, partially offset by lower salaries and wages driven by a decrease in headcount as a result of restructuring actions.

Table of Contents

Nine Months Ended September 30, 2018 compared with the Nine Months Ended September 30, 2017

During the nine months ended September 30, 2018, compared to the same period in 2017, total operating expenses decreased primarily due to lower restructuring charges from the 2018 Restructuring Plan initiated during the third quarter of 2018, compared to the 2017 Restructuring Plan. The decrease was also contributed by lower personnel-related expense resulting from a decline in headcount driven by restructuring actions, partially offset by higher share-based compensation expense, specifically in R&D. Marketing-related costs also declined year-over-year, due to a decrease in the number of marketing events held in 2018 compared to 2017. These decreases were partially offset by higher costs to support R&D projects.

Subsequent to September 30, 2018, we amended the 2018 Restructuring Plan to further implement certain organizational changes resulting in a realignment of our workforce. As a result, we expect to record severance charges of approximately \$5.0 million related to headcount reductions in the fourth quarter of 2018.

## Other Expense, Net

The following table presents other expense, net (in millions, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Interest income	\$18.9	\$14.7	\$ 4.2	29 %	\$49.8	\$37.1	\$ 12.7	34 %
Interest expense	(25.8 )	(25.3 )	(0.5 )	2 %	(77.7 )	(75.6 )	(2.1 )	3 %
(Loss) gain on investments, net	(1.9 )	4.7	(6.6 )	(140)%	(1.8 )	6.7	(8.5 )	(127)%
Other	0.7	0.8	(0.1 )	(13 )%	(1.4 )	(2.0 )	0.6	(30 )%
Total other expense, net	\$(8.1 )	\$(5.1 )	\$ (3.0 )	59 %	\$(31.1)	\$(33.8)	\$ 2.7	(8 )%
Percentage of net revenues	(0.7 )%	(0.4 )%			(0.9 )%	(0.9 )%		

Three Months Ended September 30, 2018 compared with the Three Months Ended September 30, 2017

Total other expense, net increased during the three months ended September 30, 2018, compared to the same period in 2017, primarily due to losses on equity investments, partially offset by an increase in interest income related to our fixed income investment portfolio, as a result of higher yields. With higher interest rates, other expense, net is expected to be lower over the next few quarters.

Nine Months Ended September 30, 2018 compared with the Nine Months Ended September 30, 2017

Total other expense, net decreased during the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to an increase in interest income related to our fixed income investment portfolio, as a result of higher yields and a higher average portfolio balance, partially offset by losses on equity investments.

## Income Tax (Benefit) Provision

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Income tax (benefit) provision	\$(71.8)	\$60.1	\$(131.9)	(219)%	\$(30.4)	\$157.3	\$(187.7)	(119)%
Effective tax (benefit) rate	(47.2 )%	26.6 %			(8.8 )%	25.7 %		

The effective tax rate during the three and nine months ended September 30, 2018 differs from the federal statutory rate of 21%, primarily due to the recognition of certain previously unrecognized tax benefits of \$67.6 million, which

includes interest of \$8.4 million, a reduction of expected tax liabilities of \$33.2 million, federal research and development credits, and a favorable change in the forecasted geographic mix of earnings. The recognition of \$67.6 million in previously unrecognized tax benefits is due to a lapse in the federal statute of limitations relative to fiscal years 2010 through 2014. The reduction of expected tax liabilities of \$33.2 million is a result of filing a change in accounting method for the tax recognition of deferred product revenue in the U.S. to better align with the financial statement recognition of such revenue.

Table of Contents

The Tax Act enacted on December 22, 2017, introduced significant changes to U.S. income tax law. Effective January 1, 2018, the Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21% and created a minimum tax on foreign earnings.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in the financial statements as of December 31, 2017. While we believe we have largely completed our analysis and related impacts of the Tax Act, we expect further guidance from revenue and taxation authorities in the fourth quarter of 2018, particularly from state authorities, which may impact the tax effects. As a result, we may make adjustments to the provisional amounts which may materially impact our provision for income taxes from continuing operations in the period in which the adjustments are made. We will complete the accounting for the tax effects of the Tax Act in the fourth quarter of 2018.

The Tax Act also includes provisions to tax Global Intangible Low-Taxed Income, or GILTI, of foreign subsidiaries in excess of a deemed return on their tangible assets. We anticipate further guidance in the form of tax regulations to be issued by the U.S. Treasury in the fourth quarter of 2018, regarding the utilization of foreign tax credits relative to GILTI. Due to the complexities of the new provisions and the anticipated regulations referenced above, we are continuing to evaluate how the provisions will be accounted for under U.S. GAAP. Pursuant to the Tax Act, corporations are allowed to make an accounting policy election to either (i) account for GILTI as a component of income tax expense in the period in which the corporation is subject to the rules (the "period cost method"), or (ii) account for GILTI in the corporation's measurement of deferred taxes (the "deferred method"). We have not currently elected a method and will do so after completing our analysis of the GILTI provisions of the Tax Act depending on the analysis of our global income. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and has not yet made an accounting policy election regarding whether to record deferred taxes on GILTI or use the period cost method. We have, however, included an estimate of the current GILTI impact in our annual effective tax rate for 2018. We expect to complete the accounting during the measurement period.

As a result of recommendations by the Organisation for Economic Cooperation and Development, or OECD, on Base Erosion and Profit Shifting, certain countries in EMEA and APAC have either enacted new corporate tax legislation or are considering enacting such legislation in the near future. We expect the effect of these reform measures to potentially impact long-standing tax principles, particularly in regards to transfer pricing. Consequently, we expect global tax authorities to increasingly challenge our cost sharing and other intercompany arrangements, and the related sourcing of taxable profits in global jurisdictions. We are continuing to hold discussions with the UK tax authorities regarding corporate tax reform legislation enacted by the UK.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates. Our effective tax rate could also fluctuate due to changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, or accounting principles, as well as certain discrete items. See Item 1A of Part II, "Risk Factors" of this Report for a description of relevant risks which may adversely affect our results.

### Liquidity and Capital Resources

We have funded our business primarily through our operating activities and the issuance of our short-term and long-term debt. The following table presents our capital resources (in millions, except percentages):

	As of		Change	%
	September 30, 2018	December 31, 2017		
Working capital	\$2,550.2	\$ 2,446.3	\$103.9	4 %

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

Cash and cash equivalents	\$2,501.7	\$ 2,006.5	\$495.2	25	%
Short-term investments	887.3	1,026.1	(138.8 )	(14 )	%
Long-term investments	259.0	988.4	(729.4 )	(74 )	%
Total cash, cash equivalents, and investments	3,648.0	4,021.0	(373.0 )	(9 )	%
Short-term debt	349.7	—	349.7	N/M	
Long-term debt	1,788.6	2,136.3	(347.7 )	(16 )	%
Cash, cash equivalents, and investments, net of debt	\$1,509.7	\$ 1,884.7	\$(375.0)	(20 )	%

---

N/M - percentage is not meaningful.

Table of Contents

## Summary of Cash Flows

The following table summarizes cash flow activity from our Condensed Consolidated Statements of Cash Flows (in millions, except percentages):

	Nine Months Ended September 30,			
	2018	2017	\$	%
			Change	Change
Net cash provided by operating activities (*)	\$648.7	\$1,046.7	\$(398.0)	(38)%
Net cash provided by (used in) investing activities (*)	\$730.0	\$(78.1)	\$808.1	(1,035)%
Net cash used in financing activities	\$(904.1)	\$(444.6)	\$(459.5)	103%

On January 1, 2018, we adopted the new accounting pronouncement Statement of Cash Flows: Restricted Cash. We (\*) applied this provision on a retrospective basis to conform to the current-period presentation. The adoption did not have a material impact on the cash flow activity presented in our Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.

## Operating Activities

Net cash provided by operations decreased during the nine months ended September 30, 2018, compared to the same period in 2017. The decrease was primarily due to higher cash collections from customers during the first nine months of 2017 related to service renewals invoiced during the fourth quarter of 2016, and an increase in cash paid during 2018 for income taxes, primarily due to the first of eight annual transition tax payments related to the Tax Act. These decreases in cash flows were partially offset by a decline in cash paid for personnel-related costs, principally as a result of a reduction in headcount and lower incentive compensation.

## Investing Activities

Net cash provided by investing activities increased during the nine months ended September 30, 2018, compared to the same period in 2017. The increase was primarily due to the liquidation of repatriated offshore investments to fund the accelerated share repurchase program discussed below.

## Financing Activities

Net cash used in financing activities increased during the nine months ended September 30, 2018, compared to the same period in 2017. The increase was primarily due to higher repurchases of our common stock, as a result of the accelerated share repurchase program described further below, and increases in payments of cash dividends.

## Capital Return

In January 2018, our Board of Directors, which we refer to as the Board, approved a \$2.0 billion share repurchase program, which we refer to as the 2018 Stock Repurchase Program. The 2018 Stock Repurchase Program replaces the previous authorization approved by the Board in 2014.

As part of the 2018 Stock Repurchase Program, we entered into an ASR to repurchase \$750.0 million of our common stock. During the first quarter of 2018, we made an up-front payment of \$750.0 million pursuant to the ASR and received and retired an initial 23.3 million shares of our common stock based on the market value of our common stock on the date of the transaction. During the third quarter of 2018, the ASR was completed and we received and retired an additional 6.0 million shares, based on volume weighted average repurchase price, less an agreed upon discount, of \$25.62 per share. The completion of the ASR resulted in a total repurchase of 29.3 million shares of our



common stock.

As of September 30, 2018, there was \$1.3 billion of authorized funds remaining under the 2018 Stock Repurchase Program.

Future share repurchases under the 2018 Stock Repurchase Program will be subject to a review of the circumstances 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. Our 2018 Stock Repurchase Program may be discontinued at any time. See Note 8, Equity, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report for further discussion of our share purchase program.

Table of Contents

We declared and paid cash dividends of \$0.18 per share each quarter, totaling \$187.0 million during the nine months ended September 30, 2018. Any future dividends, and the establishment of record and payment dates, are subject to approval by the Board or an authorized committee thereof. See Note 14, Subsequent Event, in the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report for discussion of our dividend declaration subsequent to September 30, 2018.

Revolving Credit Facility

We have an unsecured revolving credit facility that will expire in 2019, which enables borrowings of up to \$500.0 million, with the option, subject to the lenders' approval, to increase the amount of the credit facility by up to an additional \$200.0 million. As of September 30, 2018, we were in compliance with all covenants and there were no amounts outstanding under our credit facility.

Liquidity and Capital Resource Requirements

Liquidity and capital resources may be impacted by our operating activities as well as acquisitions, investments in strategic relationships, repurchases of additional shares of our common stock, and payment of cash dividends on our common stock. Following the enactment of the Tax Act, we repatriated approximately \$2.5 billion of our cash, cash equivalents, and investments balance from outside of the U.S. as of September 30, 2018. We expect the new territorial tax system to provide us lower cost access to nearly all of our global free cash flow on an ongoing basis. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. We intend to use the repatriated cash to invest in the business, support value-enhancing merger and acquisitions, or M&A, and fund our return of capital to stockholders.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, short-term, and long-term investments, together with cash generated from operations and access to capital markets and the revolving credit facility will be sufficient to fund our operations; planned stock repurchases and dividends; capital expenditures; commitments and other liquidity requirements; and anticipated growth for at least the next twelve months. However, our future liquidity and capital requirements may vary materially from those now planned depending on many factors, including, but not limited to, our growth rate; the timing and amount we spend to support development efforts; the expansion of sales and marketing activities; the introduction of new and enhanced products and services; the costs to acquire or invest in businesses and technologies; an increase in manufacturing or component costs; and the risks and uncertainties detailed in the "Risk Factors" section of Item 1A of Part II of this Report.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2017. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures about Market Risk, in our Form 10-K.

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 Over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the “Legal Proceedings” section in Note 13, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report, is incorporated herein by reference.

Item 1A. Risk Factors

Factors That May Affect Future Results

Investments in our securities involve significant risks. 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 disclosed by us, including, but not limited to, the following factors, that could affect our business, operating results, and stock price.

Our quarterly results are unpredictable and subject to substantial fluctuations; 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 vary quarter by quarter and be unpredictable include, but are not limited to:

- limited visibility into customer spending plans;
- changes in customer mix;
- changes in the mix of products and services sold;
- changes in the mix of geographies in which our products and services are sold;
- changing market and economic conditions;
- current and potential customer, partner and supplier consolidation and concentration;
- price and product competition;
- long sales, qualification and implementation cycles;
- unpredictable ordering patterns and reduced visibility into our customers’ spending plans and associated revenue;
- how well we execute on our strategy and operating plans and the impact of changes in our business model that could result in significant restructuring charges;
- our ability to achieve targeted cost reductions;
- changes in tax laws or accounting rules, or interpretations thereof;
- changes in the amount and frequency of share repurchases or dividends;
- regional economic and political conditions; and
- seasonality.

For example, we, and many companies in our industry, experience adverse seasonal fluctuations in customer spending, particularly in the first quarter. In addition, while we may have backlog orders for products that have not shipped, we believe that our backlog may not be a reliable indicator of future operating results for a number of reasons, including project delays, changes in project scope and the fact that our customers may cancel purchase orders

or change delivery schedules without significant penalty. Furthermore, market trends, competitive pressures, commoditization of products, rebates and discounting, increased component or logistics costs, issues with product quality, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins in a given period, which may necessitate adjustments to our operations. Such adjustments may be difficult or impossible to execute in the short or medium term.

As a result of these factors, as well as other variables affecting our operating results, we believe that quarter-to-quarter comparisons of operating results are not necessarily a good indication of what our future performance will be. In the past, our operating results have been below our guidance, our long-term financial model or the expectations of securities analysts or investors, and this may happen in the future, in which case the price of our common stock may decline and has declined in the past. Such a decline could also occur, and has occurred in the past, even when we have met our publicly stated revenues and/or earnings guidance.

Table of Contents

We expect our gross margins and operating margins to vary over time, and the level of gross margins and operating margins we have achieved in recent years may not be sustainable.

We expect our product and service gross margins to vary, both in the near-term and in the long-term, and the gross margins we have achieved in recent years may not be sustainable and may be adversely affected in the future by numerous factors, some of which have occurred and may occur in the future, including customer, vertical, product and geographic mix shifts, an increase or decrease in our software sales or services we provide, increased price competition in one or more of the markets in which we compete, changes in the actions of our competitors or their pricing strategies, which may be difficult to predict and respond to, modifications to our pricing strategy in order to gain footprint in certain markets or with certain customers, currency fluctuations that impact our costs or the cost of our products and services to our customers, increases in material, labor, logistics, warranty costs, or inventory carrying costs, excess product component or obsolescence charges from our contract manufacturers, issues with manufacturing or component availability, quality or efficiencies, increased costs due to changes in component pricing or charges incurred due to inaccurately forecasting product demand, warranty related issues, or our introduction of new products and enhancements or entry into new markets with different pricing and cost structures. For example, in fiscal year 2017, our margins decreased as compared to fiscal year 2016, primarily due to lower product net revenues and product mix, resulting from the year-over-year decline in routing revenues, our customers' architectural shifts, and higher costs of certain memory components. In fiscal year 2016, our margins decreased compared to fiscal year 2015, primarily due to elevated pricing pressure and product mix. In fiscal year 2015, our margins increased compared to fiscal year 2014, as a result of higher restructuring and other charges recorded in 2014 but not in 2015, in connection with the restructuring plan we initiated in the first quarter of 2014. Failure to sustain or improve our gross margins reduces our profitability and may have a material adverse effect on our business and stock price.

Further, we will continue to remain diligent in our long-term financial objective to increase revenue and operating margins and manage our operating expenses as a percentage of revenue. We expect that our margins will vary with our ability to achieve these goals. We can provide no assurance that we will be able to achieve all or any of the goals of these plans or meet our announced expectations, in whole or in part, or that our plans will have the intended effect of improving our margins on the expected timeline, or at all.

A limited number of our customers comprise a material portion of our revenues and any changes in the way they purchase products and services from us could affect our business. In addition, there is an ongoing trend toward consolidation in the industry in which our customers and partners operate. Any decrease in revenues from our customers or partners could have an adverse effect on our net revenues and operating results.

A material portion of our net revenues, across each customer vertical, depends on sales to a limited number of customers and distribution partners. Changes in the business requirements or focus, vendor selection, project prioritization, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased or delays in deployment) of our key customers could significantly decrease our 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 movement towards consolidation in the telecommunications industry (for example, CenturyLink, Inc.'s acquisition of Level 3 Communications, Inc., Vodafone India's proposed acquisition of Idea Cellular Ltd. and T-Mobile US, Inc.'s proposed acquisition of Sprint Corp.) and that consolidation trend has continued. Certain telecommunications companies have also moved towards vertical consolidation through acquisitions of media and content companies, such as Verizon's acquisition of Yahoo, AT&T's acquisition of Time Warner, and Comcast's acquisition of Sky. If our customers or partners are parties to consolidation transactions they may delay, suspend or indefinitely reduce or cancel their purchases of our products or other direct or indirect

unforeseen consequences could harm our business, financial condition, and results of operations.

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, 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 our customers are determining the design of those networks and the selection of the software and equipment they will use in those networks, such customers may greatly reduce or

Table of Contents

suspend their spending on secure IP infrastructure. For example, in recent quarters, our switching and routing results were adversely affected by spending delays from our largest Cloud customers, who we believe are in the process of implementing a networking architectural shift. The duration of the delay is difficult to predict, in part because each Cloud customer will migrate their network architecture based on their own constraints. Such delays in purchases can make it more difficult to predict revenues from customers, can cause fluctuations in the level of spending by customers and, even where our products are ultimately selected, can have a material adverse effect on our business, financial condition, and results of operations.

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

Our revenues and gross margin depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness or uncertainty, customer financial difficulties, and constrained spending on network expansion and enterprise infrastructure have in the past resulted in, and may in the future result in, decreased revenues and earnings. Such factors could make it difficult to accurately forecast revenues and operating results and could negatively affect our ability to provide accurate forecasts to our contract manufacturers and manage our contract manufacturer relationships and other expenses. In addition, economic instability or uncertainty, as well as continued turmoil in the geopolitical environment in many parts of the world, have, and may continue to, put pressure on economic conditions, which has led and could lead, to reduced demand for our products, to delays or reductions in network expansions or infrastructure projects, and/or higher costs of production. More generally-speaking, 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, instability in the global markets may adversely impact the ability of our customers to adequately fund their expected expenditures, which could lead to delays or cancellations of planned purchases of our products or services. 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. Therefore, fluctuations in revenue and gross margins could cause significant variations in our operating results and operating margins from quarter to quarter. Uncertainty about future economic conditions also 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 result in price concessions in certain markets or have a material adverse effect on demand for our products and consequently on our business, financial condition, and results of operations.

Our success depends upon our ability to effectively plan and manage our resources and restructure our business through rapidly fluctuating economic and market conditions, and such actions may have an adverse effect on our financial and operating results.

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 and business models in response to fluctuating market opportunities and conditions.

From time to time, we have increased investment in our business by, for example, increasing headcount, acquiring companies, and increasing our investment in R&D, sales and marketing, and other parts of our business. Conversely, in February 2017 and August 2018 we initiated the 2017 Restructuring Plan and the 2018 Restructuring Plan, respectively, to realign our workforce and increase operational efficiencies. These restructuring actions have included workforce reductions and contract terminations. As we assessed the performance of our operating results against our long-term operating goals and evaluated potential opportunities for improvement, the 2017 Restructuring Plan was expanded and additional restructuring charges were incurred in the fourth quarter of 2017 to further align our workforce. Similarly, the 2018 Restructuring Plan was expanded and additional restructuring charges are expected to



be incurred in the fourth quarter of 2018 to further align our workforce. Some of our expenses are fixed costs that cannot be rapidly or easily adjusted in response to fluctuations in our business or numbers of employees. Rapid changes in the size, alignment or organization of our workforce, including sales account coverage, 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 and financial objectives. Our ability to achieve the anticipated cost savings and other benefits from our restructuring initiatives within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we are unsuccessful at implementing changes, or if other unforeseen events occur, our business and results of operations could be adversely affected.

Table of Contents

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 serve. The routing and switching markets have historically been dominated by Cisco, with competition coming from other companies such as Nokia Corporation (following its acquisition of Alcatel-Lucent), Arista, HPE, and Huawei. In the security market, we face intense competition from Cisco and Palo Alto Networks, as well as companies such as Check Point, F5 Networks, and Fortinet. Further, 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.

In addition, actual or speculated consolidation among competitors, or the acquisition by, or of, our partners and/or resellers by competitors can increase the competitive pressures faced by us as customers may delay spending decisions or not purchase our products at all. For example, in recent years, Nokia Corporation merged with Alcatel-Lucent, HPE acquired Aruba Networks, Cisco acquired Viptela, Symantec Corporation acquired Blue Coat Systems, and Dell acquired EMC, which further consolidated our market. 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. In addition, some of our competitors have become more integrated, including through consolidation, and offer a broader range of products and services, which could make their solutions more attractive to our customers. Many of our competitors sell networking products as bundled solutions with other IT products, such as compute and storage systems. 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. Our partners and resellers generally sell or resell competing products on a non-exclusive basis and consolidation could delay spending or require us to increase discounts to compete, which could also adversely affect our business.

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, particularly new 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, both of which may be exacerbated by the impact of global economic weakness, may cause revenues and operating results to vary significantly and unexpectedly from quarter-to-quarter.

The timing of product orders and/or our reliance on revenue from sales of certain software or subscriptions and professional, support and maintenance services may cause us to recognize revenue in a different period than the one in which a transaction takes place. This may make it difficult for investors to observe quarterly trends and may cause significant variations in our operating results and operating margin on a quarterly basis.

Due to the cost, complexity and custom nature of configurations required by our customers, we generally build our network equipment products as orders are received. The volume of orders received late in any given fiscal quarter remains unpredictable. If orders for certain products are received late in any quarter, we may not be able to recognize revenue for these orders in the same period, which could adversely affect our ability to meet our expected revenues for such quarter.

In addition, services revenue accounts for a significant portion of our revenue, comprising 31%, 29%, and 27% of total revenue in fiscal year 2017, 2016, and 2015, respectively. Sales of new or renewal professional services, support and maintenance contracts may decline and/or fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and services, the prices of our products and services or those offered by our competitors, and reductions in our end-customers' spending levels. We recognize professional services, support and maintenance revenue periodically over the term of the relevant service period.

## Table of Contents

The introduction of new software products and services is part of our intended strategy to expand our software business, and certain software revenues may be recognized periodically over the term of the relevant use period or subscription period. As a result, certain software, subscription and support and maintenance revenue we report each fiscal quarter is the recognition of deferred revenue from contracts entered into during previous fiscal quarters. Consequently, a decline in such new or renewed contracts in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of certain software products, subscriptions or support and maintenance is not reflected in full in our operating results until future periods. Also, it is difficult for us to rapidly increase such software or services revenue through additional sales in any period, as revenue from those software, subscription and support and maintenance contracts must be recognized over the applicable period.

Additionally, we determine our operating expenses largely on the basis of anticipated revenues and technology roadmap 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.

If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products, product enhancements and business strategies that meet those technological shifts, needs and opportunities, or if those products are not made available or strategies are not executed 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.

The markets for our products are characterized by rapid technological change, frequent new product introductions, changes in customer requirements, continuous pricing pressures and a constantly evolving industry. We may not be able to anticipate future technological shifts, market needs and opportunities or be able to develop new products, product enhancements or business strategies to meet such technological shifts, needs or opportunities in a timely manner or at all. For example, the move from traditional wide area network, or WAN, infrastructures towards software-defined WAN, or SD-WAN, has been receiving considerable attention. In our view, it will take several years to see the full impact of SD-WAN, and we believe the successful products and solutions in this market will combine hardware and software elements. If we fail to anticipate market requirements or opportunities or fail to develop and introduce new products, product enhancements or business strategies to meet those requirements or opportunities 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 and services, which would significantly harm our business, financial condition, and results of operations. In addition, if we invest time, energy and resources in developing products for a market that doesn't develop, it could likewise significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop, and commercially introduce new products, enhancements or business strategies, there can be no assurance that new products, enhancements or business strategies will achieve widespread market acceptance.

In recent years, we have announced a number of new products and enhancements to our hardware and software products across routing, switching and security. The success of our new products depends on several factors, including, but not limited to, component costs, timely completion and introduction of these products, prompt resolution of any defects or bugs in these products, our ability to support these products, differentiation of new products from those of our competitors and market acceptance of these products.

The introduction of new software products is part of our intended strategy to expand our software business. We have also begun to disaggregate certain software from certain hardware products, such that customers would be able to purchase or license our hardware and software products independently, which we expect could in time enable our hardware to be deployed with third party networking applications and services and our software to be used with third party hardware. The success of our strategy to expand our software business, including our strategy to disaggregate

software from certain hardware products, is subject to a number of risks and uncertainties, including:

- the additional development efforts and costs required to create new software products and/or to make our disaggregated products compatible with multiple technologies;

- the possibility that our new software products or disaggregated products may not achieve widespread customer adoption;

- the possibility that our strategy could erode our revenue and gross margins;

- the impact on our financial results of longer periods of revenue recognition for certain types of software products and changes in tax treatment associated with software sales;

- the additional costs associated with regulatory compliance and changes we need to make to our distribution chain in connection with increased software sales;

Table of Contents

the ability of our disaggregated hardware and software products to operate independently and/or to integrate with current and future third party products; and

issues with third-party technologies used with our disaggregated products may be attributed to us.

If any of our new products or business strategies do not gain market acceptance or meet our expectations for growth, our ability to meet future financial targets may be adversely affected and our competitive position and our business and financial results could be harmed.

We are dependent on contract manufacturers with whom we do not have long-term supply contracts, and changes to or disruptions in those relationships or manufacturing processes, expected or unexpected, may result in delays 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, which includes failing to provide accurate forecasts of our requirements, 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. We have experienced in the past and may experience in the future an increase in the expected time required to manufacture our products or ship products. Such delays could result in supply shortfalls that damage our ability to meet customer demand for those products and could cause our customers to purchase alternative products from our competitors. Also, the addition of manufacturing locations or contract manufacturers or the introduction of new products by us would increase the complexity of our supply chain management. Moreover, a significant portion of our manufacturing is performed in China and other foreign countries and is therefore subject to risks associated with doing business outside of the United States, including the possibility of import tariffs or regional conflicts. For example, the United States recently imposed a tariff on networking products imported from China; this includes certain products that we import into and sell within the United States. If we cannot mitigate the impact of the tariffs, the increased cost could translate into higher prices for customers, reduced customer demand or increased cost of goods sold. In addition, increased costs of production or delays in production caused by any relocation of contract manufacturing facilities could impact the global competitiveness of our products. Each of these factors could adversely affect our business, financial condition and results of operations.

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

We rely on single or limited sources for certain of our components. During periods of high demand for electronic products, component shortages are possible, and the predictability of the availability of such components may be limited. For example, we are in the process of working through some industry-wide supply constraints related to power management components. In addition, some components used in our networking solutions have in the past and may in the future experience extended lead times and higher pricing, given the demand in the market. Any future spike in growth in our business, the use of certain components we share in common with other companies, in IT spending or the economy in general, is likely to create greater short-term pressures on us and our suppliers to accurately forecast overall component demand and to establish optimal component inventories. If shortages or delays persist, we may not be able to secure enough components at reasonable prices or of acceptable quality to build and deliver products in a timely manner, and our revenues, gross margins and customer relationships could suffer.

Additionally, if certain components that we receive from our suppliers have defects or other quality issues, we may have to replace or repair such components, and we could be subject to claims based on warranty, product liability, epidemic or delivery failures that could lead to significant expenses. We maintain product liability insurance, but there is no guarantee that such insurance will be available or adequate to protect against all such claims. We have experienced, and from time-to-time may experience, component shortages or quality issues that resulted, or could result, in delays of product shipments, revenue charges that impact our gross margins, and/or warranty or other claims or costs. We also currently purchase numerous key components, including ASICs and other semiconductor chips, from single or limited sources and many of our component suppliers are concentrated in China and Korea. In addition, there has been consolidation among certain suppliers of our components. For example, GLOBALFOUNDRIES acquired IBM's semiconductor manufacturing business, Avago Technologies Limited acquired Broadcom Corporation and Intel Corporation acquired Altera Corporation. Consolidation among suppliers can result in the reduction of the number of independent suppliers of components available to us, which could negatively impact our ability to access certain component parts or the prices we have to pay for such parts. In addition, our suppliers may determine not to continue a business relationship with us for other reasons that

## Table of Contents

may be beyond our control. Any disruptions to our supply chain could decrease our sales, earnings and liquidity or otherwise adversely affect our business and result in increased costs. Such a disruption could occur as a result of any number of events, including, but not limited to, increases in wages that drive up prices, the imposition of regulations, quotas or embargoes on components, labor stoppages, transportation failures affecting the supply chain and shipment of materials and finished goods, third party interference in the integrity of the products sourced through the supply chain, the unavailability of raw materials, severe weather conditions, natural disasters, civil unrest, military conflicts, geopolitical developments, war or terrorism and disruptions in utility and other services.

The development of alternate sources for 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. Also, long-term supply and maintenance obligations to customers increase the duration for which specific components are required, which may further increase the risk of component shortages or the cost of carrying inventory. 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 products and services 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 components and products would adversely affect our business.

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 for our products to our contract manufacturers and original design manufacturers, who order components and plan capacity based on these forecasts. If we overestimate our requirements, our original design or contract manufacturers may assess charges, or we may have liabilities for excess inventory, each of which could negatively affect our gross margins. For example, in certain prior quarters, our gross margins were reduced as a result of an inventory charge resulting from inventory we held in excess of forecasted demand. In addition, some optical modules we use are experiencing faster product transitions than our other products, which increases the risk that we could have excess inventory of those modules. Conversely, 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. Given that our contract manufacturers are third-party manufacturers for numerous other companies, if we underestimate our requirements, as we have in certain prior quarters with respect to certain products, our contract manufacturers may have inadequate time, materials, and/or components required to produce our products. This could increase costs or delay or interrupt manufacturing of our products, resulting in delays in shipments and deferral or loss of revenues and could negatively impact customer satisfaction.

System security risks, data protection breaches, and cyber-attacks could compromise our and our customers' proprietary information, disrupt our internal operations and harm public perception of our products, which could cause our business and reputation to suffer and adversely affect our stock price.

In the ordinary course of business, we store sensitive data, including intellectual property, personal data, our proprietary business information and that of our customers, suppliers and business partners on our networks. In addition, we store sensitive data through cloud-based services that may be hosted by third parties and in data center infrastructure maintained by third parties. The secure maintenance of this information is critical to our operations and business strategy. The growing cyber risk environment means that individuals, companies, and organizations of all sizes, including Juniper, have been and are increasingly subject to the threat of intrusions on their networks and



systems by a wide range of actors, including but not limited to nation states, criminal enterprises, and terrorist organizations, on an ongoing and regular basis. Despite our security measures, and those of our third-party vendors, our information technology and infrastructure has experienced breaches and may be vulnerable in the future to breach or attacks by computer programmers, hackers or sophisticated nation-state and nation-state supported actors or breached due to employee error or wrongful conduct, malfeasance, or other disruptions. If any breach or attack compromises our networks, creates system disruptions or slowdowns or exploits security vulnerabilities of our products, the information stored on our networks or those of our customers could be accessed and modified, publicly disclosed, lost or stolen, and we may be subject to liability to our customers, suppliers, business partners and others, and suffer reputational and financial harm. In addition, hardware, components and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs", vulnerabilities and other problems that could unexpectedly interfere with the operation of our networks or expose us or our products to cyber attacks. This can be true even for "legacy" products that have been determined to have reached an end of life engineering status but will continue to operate for a limited amount of time. Furthermore, third parties may attempt to exfiltrate data through the introduction into the Information and Communications Technology supply chain of malicious products

Table of Contents

and components that are designed to defeat or circumvent encryption and other cybersecurity measures, and if successful, such actions could diminish customer trust in our products, harm our business reputation, and adversely affect our business and financial condition.

When vulnerabilities are discovered, we evaluate the risk, apply patches or take other remediation actions as required and notify customers and suppliers when appropriate. All of this requires significant time and attention from management and our employees.

As a result of any actual or perceived breach of network security that occurs in our network or in the network of a customer of our products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products and our overall reputation could be harmed. As a large, well known provider of networking products, cyber attackers may specifically target our products or attempt to imitate us or our products in order to compromise a network. Because the techniques used by attackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques or the vulnerabilities they have caused. This could impede our sales, manufacturing, distribution or other critical functions, which could have an adverse impact on our financial results. The economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure, because the damage may differ based on the identity and motive of the attacker, which are often difficult to pinpoint. Additionally, we could be subject to regulatory investigations, potential fines and litigation in connection with a security breach or related issue and be liable to third parties for these types of breaches.

We rely on value-added and other resellers, as well as distribution 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 Ericsson, IBM, Dimension Data and NEC Corporation. The majority of our revenues are derived through value-added resellers and distributors, most of which also sell our competitors' products, and some of which sell their own competing products. Our revenues depend in part on the performance of these partners. The loss of or reduction in sales to our resellers or distributors could materially reduce our revenues. For example, in 2016, Nokia Corporation merged with Alcatel-Lucent, a competitor of ours, and in 2015 Cisco announced a partnership with Ericsson, which is one of our existing partners. Our competitors may in some cases be effective in leveraging their market share positions or 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, fail to expand the number of distributors and resellers in existing markets, fail to manage, train or motivate existing value-added resellers and distributors effectively, determine that we cannot continue to do business with these partners for any reason 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 at the time we sell products to our distributors. If these sales are made based on inaccurate or untimely information, the amount or timing of our revenues could be adversely impacted.

We are also vulnerable to third parties who illegally distribute or sell counterfeit, stolen or unfit versions of our products, which has happened in the past and could happen in the future. Such sales could have a negative impact on our reputation and business.

Further, in order to develop and expand our distribution channel, we must continue to offer attractive channel programs to potential partners and scale and improve our processes and procedures that support the channel. As a result, our programs, processes and procedures may become increasingly complex and inherently difficult to manage. We have previously entered into OEM agreements with partners pursuant to which they rebrand and resell our products as part of their product portfolios. These types of 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 programs, processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products. We also depend on our global channel partners to comply with applicable legal and regulatory requirements. To the extent that they fail to do so, that could have a material adverse effect on our business, operating results, and financial condition.

## Table of Contents

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, data center providers 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 the interfaces between the two. For example, we are in the process of further consolidating our on-site data centers to the cloud and to off-site facilities that are hosted and controlled by third-parties. These cloud providers and off-site facilities are vulnerable to damage, interruption or performance problems from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures, equipment failure, adverse events caused by operator error, cybersecurity attacks and similar events. In addition, because we lease our cloud storage space and off-site data center facilities, we cannot be assured that we will be able to expand our data center infrastructure to meet user demand in a timely manner, or on favorable economic terms. If we have issues receiving and processing data, this may delay our ability to provide products and services to our customers and damage our business. 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.

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 2017 we acquired Cyphort Inc. and in 2016, we acquired AppFormix Inc., Aurrion, Inc. and BTI Systems Inc. Acquisitions involve numerous risks, including, but not limited to, problems combining the purchased operations, technologies or products, unanticipated costs and liabilities, 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, operate or integrate any acquired business or if we 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.

In connection with certain acquisitions, we may agree to issue common stock or assume equity awards that dilute the ownership of our current stockholders, use a substantial portion of our cash resources, assume liabilities (both known and unknown), 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.

Telecommunications, cable and cloud service provider companies and our other large customers generally require 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 impact the amount of revenues to be recognized.

Telecommunications, cable and cloud service provider companies, which comprise a significant portion of our customer base, and other large companies, generally have greater purchasing power than smaller entities and, accordingly, often request and receive more favorable terms from suppliers. For example, our customers France Telecom-Orange and Deutsche Telekom AG have formed a company for the purpose of purchasing products from, and negotiating more favorable contractual terms with, suppliers. 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, increase our costs 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.

In addition, service providers 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, these 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 impact the amount of revenue recognition from such sales, which may negatively affect our business, financial condition and results of operations. In addition, increased patent litigation brought against customers by non-practicing entities in

Table of Contents

recent years, may result, and in some cases has resulted, in customers requesting or requiring vendors to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations.

We are a party to lawsuits, investigations, proceedings, and other disputes, which are costly to defend and, if determined adversely to us, could require us to pay fines or damages, undertake remedial measures or prevent us from taking certain actions, any or all of which could harm our business, results of operations, financial condition or cash flows.

We, and certain of our current and former officers and current and former members of our Board of Directors, have been or 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. As noted in Note 13, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements of this Report, under the heading of “Legal Proceedings”, the U.S. Securities and Exchange Commission, or the SEC, is conducting, and the U.S. Department of Justice, or the DOJ, was previously conducting, investigations into possible violations by the Company of the U.S. Foreign Corrupt Practices Act, or the FCPA, in a number of countries. The Company’s Audit Committee, with the assistance of independent advisors, conducted a thorough internal review of possible violations of the FCPA, and the Company made improvements in its internal controls and carried out a number of disciplinary actions. The Company is continuing to fully cooperate with the SEC’s ongoing investigation, and based on the recent communications with the Staff of the SEC, the Company believes it is likely that the Staff of the SEC will seek to bring an enforcement action against the Company. The Company believes it is probable that it could incur a loss and has established an estimated legal reserve of \$12.0 million related to the ongoing SEC investigation. Litigation and investigations are inherently uncertain. We therefore cannot predict the duration, scope, outcome or consequences of litigation and government investigations. In connection with any government investigations, including those in which we are currently involved as described above, if the government takes action against us or we agree to settle the matter, we may be required to pay substantial fines and incur other sanctions, which may be material, and suffer reputational harm. The lawsuits and investigations are expensive and time-consuming to defend, settle, and/or resolve, and may require us to implement certain remedial measures that could prove costly or disruptive to our business and operations. The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition or cash flows.

We are a party to litigation and claims regarding intellectual property rights, resolution of which may be time-consuming and expensive, as well as require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. 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. In addition, increased patent litigation brought by non-practicing entities in recent years may result, and in some cases has resulted, in our customers requesting or requiring us to absorb a portion of the costs of such litigation or providing broader indemnification for litigation, each of which could increase our expenses and negatively affect our business, financial condition and results of operations. 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, enter into license agreements, or cease engaging in certain activities or offering certain products or services. 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 or anyone we are required to indemnify by any third-party is successful, if we are required to settle litigation for significant amounts of money, if we fail to develop non-infringing technology, if we incorporate infringing technology in our products or if we license required proprietary rights at material expense, our business, financial condition, and results of operations could be materially and adversely affected.

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

We are subject to laws and regulations affecting the sale of our products in a number of areas. For example, some governments have regulations prohibiting government entities from purchasing security products that do not meet country-specific safety, conformance or security certification criteria or in-country test requirements. Other regulations that may negatively impact our business include local content or local manufacturing requirements most commonly applicable for government, state-owned enterprise or regulated industry procurements. These types of regulations are in effect or under consideration in several jurisdictions where we do business.

Table of Contents

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements applicable to public companies regarding the use of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries, which we refer to collectively as the DRC, and procedures regarding a manufacturer's efforts to prevent the sourcing of such “conflict minerals.” These minerals are present in our products. In addition, the European Union reached agreement in late 2016 on a EU-wide conflict minerals rule under which most EU importers of tin, tungsten, tantalum, gold and their ores will have to conduct due diligence to ensure the minerals do not originate from conflict zones and do not fund armed conflicts. Large manufacturers also will have to disclose how they plan to monitor their sources to comply with the rules. The regulation was adopted in 2017 with compliance required by 2021.

In addition, environmental laws and regulations relevant to electronic equipment manufacturing or operations, including laws and regulations governing the hazardous material content of our products and laws relating to the collection of and recycling of electrical and electronic equipment, may adversely impact our business and financial condition. These laws and regulations include, among others, the European Union, or EU, Restriction on the Use of Certain Hazardous Substances Directive, or RoHS. The EU RoHS and the similar laws of other jurisdictions limit the content of certain hazardous materials, such as lead, mercury, and cadmium, in electronic equipment, including our products. Currently, our products comply with the EU RoHS requirements. However, certain exemptions are scheduled to lapse or have lapsed. The lapse of any exemption, further changes to this or other laws, or passage of similar laws in the EU or other jurisdictions, would require us to cease selling non-compliant products and to reengineer our products to use components compatible with these regulations. This reengineering and component substitution could result in additional costs to us, disrupt our operations or logistics, and result in an adverse impact on our operating results. In addition, in validating the compliance of our products with applicable hazardous materials restrictions, we rely substantially on affirmations by our component suppliers as to the compliance of their products with respect to those same restrictions. Failure by our component suppliers to furnish accurate and timely information could subject us to penalties or liability for violation of such hazardous materials restrictions, interrupt our supply of products to the EU, and result in our customers refusing or being unable to purchase our products. Additionally, the EU and a number of other jurisdictions have adopted regulations requiring producers of electrical and electronic equipment to assume certain responsibilities for collecting, treating, recycling and disposing of products when they have reached the end of their useful life. Finally, the EU REACH regulations regulate the handling of certain chemical substances that may be used in our products.

In addition, as a contractor and subcontractor to U.S. government departments and agencies, we are subject to federal regulations pertaining to our IT systems. For instance, as a subcontractor to the U.S. Department of Defense, or DOD, the Defense Federal Acquisition Regulation Supplement, or DFARS, required that our IT systems comply with the security and privacy controls described in National Institute of Standards and Technology Special Publication 800-171, or NIST SP 800-171 no later than December 31, 2017. The DFARS also requires that we flow the security control requirement down to certain of our own subcontractors. Failure to comply with these requirements could result in a loss of federal government business, subject us to claims or other remedies for non-compliance and negatively impact our business, financial condition, and results of operations.

The 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. Similarly, while there are currently few laws or regulations that apply directly to access to or commerce on IP networks, future regulations could include sales taxes on products sold via the Internet and Internet service provider access charges. We could be adversely affected by regulation of IP networks and commerce in any country where we market equipment and services to service providers or cloud provider companies. Regulations governing the range of services and business models that can be offered by service providers or cloud provider companies could adversely affect those customers' needs for products. For instance, in December 2017, the U.S. Federal Communications Commission repealed its 2015 regulations governing aspects of fixed broadband networks and wireless networks. This change in regulatory



treatment of networks might impact service provider and cloud provider business models and, as such, providers' needs for Internet telecommunications equipment and services. At the same time, several states have enacted their own laws and regulations governing certain aspects of fixed and wireless networks in the manner of the 2015 FCC regulations; these laws and regulations are or will be subject to legal challenges from the federal government and/or regulated providers. Also, many jurisdictions are evaluating or implementing regulations relating to cyber security, supply chain integrity, privacy and data protection, any of which can affect the market and requirements for networking and security equipment.

The adoption and implementation of additional regulations could reduce demand for our products, increase the cost of building and selling our products, result in product inventory write-offs, impact our ability to ship products into affected areas and recognize revenue in a timely manner, require us to spend significant time and expense to comply, and subject us to fines and civil or criminal sanctions or claims if we were to violate or become liable under such regulations. Any of these impacts could have a material adverse effect on our business, financial condition, and results of operations.

Table of Contents

Governmental regulations and economic sanctions affecting the import or export of products generally or affecting products containing encryption capabilities could negatively affect our revenues and operating results.

The United States and various foreign governments have imposed controls and restrictions on the export of, among other things, products that contain or use encryption technology. Most of our products contain or use encryption technology and, consequently, are subject to such controls, requirements and restrictions. Certain governments also control importation and in-country use of encryption items and technology. The scope, nature and severity of such controls vary widely across different countries and may change frequently over time. For example, recently enacted legislation in the United States expands the power of the federal government to restrict the export of emerging and foundational technologies. How the government chooses to implement this authority will affect our ability to market and sell our products overseas. In addition, China has promulgated cybersecurity regulations affecting networking products that may impair our ability to profitably market and sell our products in China. Certain countries' encryption control regimes may significantly limit our ability to sell major lines of our products in those countries.

Certain governments also impose special local content, certification, testing, source code review, escrow and governmental recovery of private encryption keys, or feature requirements on network equipment for purposes of government procurements. Similar requirements also may be imposed in procurements by state owned entities ("SOE's"). Our ability to sell into substantial government and SOE markets (whether or not the products we sell include encryption) is vulnerable to changes in applicable government procurement regulations, any associated local content requirements and changes in the government's interpretation of such regulations. In addition, the U.S. government has broader sanctions and embargoes that generally forbid supply of most items to or involving certain countries, territories, governments, legal entities and individuals, including restrictions imposed by the US and EU on exports to Russia and Ukraine. We have implemented systems to detect and prevent sales into these countries or to prohibited entities or individuals, but there can be no assurance that they will always be effective.

In addition, governments sometimes impose additional taxes on certain imported products. For example, the United States and Chinese governments each have imposed tariffs on certain products originating from the other country. The United States, for example, imposed a 10% tariff on networking products from China that is scheduled to increase to 25% on January 1, 2019. The tariff applies to certain products that we import. Depending upon its duration and implementation, as well as our ability to mitigate their impact, these tariffs could materially affect our business, including in the form of increased cost of goods sold, increased pricing for customers, and reduced sales.

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, or related economic sanctions could harm our international and domestic sales and adversely affect our revenues and operating results. In addition, failure to comply with such regulations could result in harm to our reputation and ability to compete in international markets, penalties, costs, seizure of assets (including source code) and restrictions on import or export privileges or adversely affect sales to government agencies or government-funded projects.

Our actual or perceived failure to adequately protect personal data could adversely affect our business, financial condition and results of operations.

A variety of state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These privacy- and data protection-related laws and regulations are evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations. Compliance with these laws and regulations can be costly and can delay or impede the development and offering of new products and services.

For example, we previously relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU Safe Harbor Framework, which we refer to as the Safe Harbor, agreed to by the U.S. Department of Commerce and the EU. The Safe Harbor, which established means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area, or EEA, to the U.S., was invalidated in 2015 by a decision of the European Court of Justice, or the ECJ. Now that the EU and U.S. have implemented a successor privacy framework called the Privacy Shield, we are reviewing and documenting our practices required to obtain certification under the Privacy Shield, in addition to entering into EU Model Contracts with our vendors where appropriate and feasible in anticipation of the possibility that either the Privacy Shield or EU Model Contracts may be legally challenged or voided like Safe Harbor in an uncertain political environment. In addition, the EU General Data Protection Regulation, which went into full effect in May 2018, has resulted in substantial changes to our compliance obligations, including contractual requirements for data transfers outside the EEA, and a significant increase in potential administrative fines for non-compliance. Similarly, the June 2016 approval by voters in the United Kingdom, or U.K., of a referendum to leave the EU could require us to make additional changes to the way we conduct our business and transmit data between the U.S., U.K., EU and the rest of the world.

Table of Contents

Our actual or alleged failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement actions, significant penalties or other legal action against us or our customers or suppliers, which could result in negative publicity, increase our operating costs, subject us to claims or other remedies and have a material adverse effect on our business, 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 with specialized industry expertise, 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, 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.

A number of our team members are foreign nationals who rely on visas and entry permits in order to legally work in the United States and other countries. In recent years, the United States has increased the level of scrutiny in granting H-1(B), L-1 and other business visas. In addition, the current U.S. administration has indicated that immigration reform is a priority. Compliance with United States immigration and labor laws could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain skilled professionals. Any of these restrictions could have a material adverse effect on our business, results of operations and financial conditions.

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

We are required to test intangible assets with indefinite lives, including goodwill, annually or more frequently if certain circumstances change that would more likely than not reduce the fair value of a reporting unit and intangible assets below their carrying values. As of September 30, 2018, our goodwill was \$3,094.3 million and intangible assets with indefinite lives was \$49.0 million. When the carrying value of a reporting unit's goodwill exceeds its implied fair value of goodwill, or if the carrying amount of an intangible asset with an indefinite life exceeds its fair value, a charge to operations is recorded. Either event 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. We have in the past recorded goodwill impairment charges.

From time to time, economic weakness has contributed to extreme price and volume fluctuations in global stock markets that have reduced the market price of many technology company stocks, including ours. Declines in our level of revenues or declines in our operating margins, or sustained declines in our stock price, increase the risk that goodwill and intangible assets with indefinite lives may become impaired in future periods.

During the three months ended June 30, 2017, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis on our Security reporting unit. Based on our analysis, we determined that our Security reporting unit's goodwill was not impaired. However, our goodwill impairment analysis is sensitive to changes in key assumptions used in our analysis, such as expected future cash flows, the degree of volatility in equity and debt markets, and our stock price. If the assumptions used in our analysis are not realized, it is possible that an impairment charge may need to be recorded in the future. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. However, any such impairment would have an adverse effect on our results of operations.

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 the following: 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; costs related to intercompany restructuring; tax effects of share-based compensation; challenges to our methodologies for valuing developed technology or intercompany arrangements; limitations on the deductibility of net interest expense; or changes in tax laws, regulations, accounting principles, or interpretations thereof. For example, on July 24, 2018, the Ninth Circuit Court of Appeals, or the Court, issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to share-based compensation. On

Table of Contents

August 7, 2018, the Court withdrew its opinion to allow time for a reconstituted panel to confer. We are monitoring this case and any impact the final opinion could have on our financial statements. In addition, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), which was signed into law on December 22, 2017, makes significant changes to the taxation of U.S. business entities that will have a meaningful impact to our provision for income taxes. These changes include a reduction to the federal corporate income tax rate, the current taxation of certain foreign earnings, the imposition of base-erosion prevention measures which may limit the deduction of certain transfer pricing payments, and possible limitations on the deductibility of net interest expense or corporate debt obligations. Accounting for the income tax effects of the Tax Act requires significant judgments and estimates that are based on current interpretations of the Tax Act and could be affected by changing interpretations of the Act, as well as additional legislation and guidance around the Act. Any refinements to these provisional estimates are difficult to predict and could impact our results.

Furthermore, on October 5, 2015, the Organisation for Economic Co-operation and Development, or OECD, an international association of 35 countries including the U.S., published final proposals under its Base Erosion and Profit Shifting, or BEPS, Action Plan. The BEPS Action Plan includes fifteen Actions to address BEPS in a comprehensive manner and represents a significant change to the international corporate tax landscape. These proposals, as adopted by countries, may increase tax uncertainty and adversely affect our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service, or IRS, and other tax authorities. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, but the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made. There can be no assurance that the outcomes from continuous examinations will not have an adverse effect on our business, financial condition, and results of operations.

We may face difficulties enforcing our proprietary rights, which could adversely affect our ability to compete.

We generally rely on a combination of patents, copyrights, trademarks, and trade secret laws and contractual restrictions on disclosure of confidential and proprietary information, to establish and maintain proprietary rights in our technology and products. Although we have been issued numerous patents and other patent applications are currently pending, there can be no assurance that any of our patent applications will result in issued patents or that any of our patents or other proprietary rights will not be challenged, invalidated, infringed or circumvented or that our rights will, in fact, provide competitive advantages to us or protect our technology, any of which could result in costly product redesign efforts, discontinuance of certain product offerings and other competitive harm.

In addition, despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and customers, and generally limit access to and distribution of our proprietary information. However, we cannot assure you that we have entered into such agreements with all parties who may have or have had access to our confidential information or that the agreements we have entered into will not be breached. We cannot guarantee that any of the measures we have taken will prevent misappropriation of our technology.

Furthermore, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents

or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled our success.

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 substantial portion of our revenues from our international operations, and we plan to continue expanding our business in international markets. 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.

## Table of Contents

As a result of our international operations, we are affected by economic, business regulatory, social, and political conditions in foreign countries, including the following:

• changes in general IT spending,

- the imposition of government controls, inclusive of critical infrastructure protection;

• changes or limitations in trade protection laws or other regulatory requirements, which may affect our ability to import or export our products from various countries;

• laws that restrict sales of products developed or manufactured outside of the country;

• varying and potentially conflicting laws and regulations;

• fluctuations in local economies;

• wage inflation or a tightening of the labor market;

• tax policies that could have a business impact;

• import tariffs imposed by the United States and reciprocal tariffs imposed by foreign countries;

• data privacy rules and other regulations that affect cross border data flow; and

the impact of the following on customer spending patterns: 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.

Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

In addition, the UK's exit from the EU, commonly referred to as Brexit, has caused, and may continue to cause, uncertainty in the global markets. Brexit, if implemented, will take some period of time to complete and could result in regulatory changes that impact our business. For example, changes to the way service providers conduct business and transmit data between the UK and the EU could require us to make changes to the way we handle customer data. We will also review the impact of any resulting changes to EU or UK law that could affect our operations, such as labor policies, financial planning, product manufacturing, and product distribution. Political and regulatory responses to the vote are still developing and we are in the process of assessing the impact the vote may have on our business as more information becomes available. Nevertheless, because we conduct business in the EU, including the UK, any of the effects of Brexit, including those we cannot anticipate, could have a material adverse effect on our business, operating results, financial condition and cash flows.

Our business is also impacted by the negotiation and implementation of free trade agreements between the United States and other nations. Such agreements can reduce barriers to international trade and thus the cost of conducting business overseas. For instance, the United States recently reached a new trilateral trade agreement with the Governments of Canada and Mexico to replace the North American Free Trade Agreement (NAFTA). If the United States withdraws from NAFTA and the three countries fail to approve the new agreement, known as the United



States-Mexico-Canada Agreement (USMCA), our cost of doing business within the three countries could increase.

Moreover, local laws and customs in many countries differ significantly from or conflict with those in the United States or in other countries in which we operate. In many foreign countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or US regulations applicable to us. There can be no assurance that our employees, contractors, channel partners, 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, channel partners, or agents could result in termination of our relationship, financial reporting problems, fines, and/or penalties for us, 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.

Table of Contents

Our products are highly technical and if they contain undetected defects, errors or malware or do not meet customer quality expectations, our business could be adversely affected, and we may be subject to additional costs or lawsuits or be required to 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. These errors may arise from hardware or software we produce or procure from third parties. Some errors in our products may only be discovered after a product has been installed and used by end-customers. For example, in December 2015, we disclosed that we identified unauthorized code in ScreenOS that could allow a knowledgeable attacker to gain administrative access to NetScreen devices and to decrypt VPN connections.

Any errors, defects, malware or security vulnerabilities discovered in our products after commercial release could result in monetary penalties, negative publicity, 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 or indemnification. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention. 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. Moreover, if our products fail to satisfy our customers' quality expectations for whatever reason, the perception of and the demand for our products could be adversely affected.

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

Because a substantial portion 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, Chinese Yuan, Euro, and Indian Rupee 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. This could negatively affect our ability to meet our customers' pricing expectations in those markets and may result in erosion of gross margin and market share. 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 currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and periodically hedge anticipated foreign currency cash flows, with the aim of offsetting the impact of currency fluctuations on these exposures. However, hedge activities can be costly, and hedging cannot fully offset all risks, including long-term declines or appreciation in the value of the U.S. Dollar. If our attempts to hedge against these risks are not successful, or if long-term declines or appreciation 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 effectively improve our systems and processes or we fail to monitor and ensure that these systems and processes are being used correctly, our ability to manage our business, financial condition, and results of operations may be negatively affected.

Table of Contents

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 are not available on terms acceptable to us, 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 renegotiate our current third party licenses or license additional technology from third-parties to develop new products or product enhancements or to facilitate new business models. 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, including free open source software, may result in our inability to continue to use such license. Some of our agreements with our licensors may be terminated for convenience by them. In addition, we cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. Third party technology we incorporate into our products that is deemed to infringe on the intellectual property of others may result, and in some cases has resulted, in limitations on our ability to source technology from those third parties, restrictions on our ability to sell products that incorporate the infringing technology, increased exposure to liability that we will be held responsible for incorporating the infringing technology in our products and increased costs involved in removing that technology from our products or developing substitute technology. 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.

We are required to evaluate the effectiveness of our internal control over financial reporting and publicly disclose material weaknesses in our controls. Any adverse results from such evaluation may adversely affect investor perception, and our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to assess the effectiveness of our internal control over financial reporting and to disclose in our filing if such controls were unable to provide assurance that a material error would be prevented or detected in a timely manner. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design and test the system and process controls necessary to comply with these requirements. If in the future, our internal controls over financial reporting are determined to be not effective resulting in a material weakness or significant deficiency, investor perceptions regarding the reliability of our financial statements may be adversely affected which could cause a decline in the market price of our stock and otherwise negatively affect our liquidity and

financial condition.

Failure to maintain our credit ratings could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

The major credit rating agencies routinely evaluate our indebtedness. This evaluation is based on a number of factors, which include financial strength as well as transparency with rating agencies and timeliness of financial reporting. There can be no assurance that we will be able to maintain our credit ratings and failure to do so could adversely affect our cost of funds and related margins, liquidity, competitive position and access to capital markets.

Table of Contents

We may be unable to generate the cash flow to satisfy our expenses, make anticipated capital expenditures or service our debt obligations, including the Notes and the Revolving Credit Facility.

As of September 30, 2018, we have \$2,150 million in aggregate principal amount of senior notes outstanding, which we refer to collectively as the Notes, and had \$2,138.3 million in outstanding short-term and long-term debt. In June 2014, we entered into a Credit Agreement with certain institutional lenders that provides for a five year \$500.0 million unsecured revolving credit facility, which we refer to as the Revolving Credit Facility, with an option to increase the Revolving Credit Facility by up to an additional \$200.0 million. The Credit Agreement will terminate in June 2019, at which point all amounts borrowed must be repaid. As of September 30, 2018, no amounts were outstanding under the Credit Agreement.

We may not be able to generate sufficient cash flow to enable us to satisfy our expenses, make anticipated capital expenditures or service our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). Our ability to pay our expenses, 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 at least the next twelve months to meet our anticipated requirements for working capital, capital expenditures and scheduled payments of principal and interest on our indebtedness, including the Notes and the Revolving Credit Facility (if drawn upon). 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 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 indentures that govern the Notes contain 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.

The Credit Agreement contains two financial covenants along with customary affirmative and negative covenants that include the following:

• maintenance of a leverage ratio no greater than 3.0x and an interest coverage ratio no less than 3.0x

• covenants that limit or restrict the ability of the Company and its subsidiaries to, among other things, grant liens, merge or consolidate, dispose of all or substantially all of its assets, change their accounting or reporting policies, change their business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type.

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 Notes, and the Revolving Credit Facility (if drawn upon).

In addition, certain changes under the Tax Act may result in limitations on the deductibility of our net business interest expenses. Beginning in 2018, the Tax Act generally limits the annual deduction for net business interest expense to an amount equal to 30% of adjusted taxable income. As a result, if our taxable income were to decline, we may not be able to fully deduct our net interest expense. These changes, among others under the Tax Act, could result in increases to our future U.S. tax expenses, which could have a material impact on our business.

Table of Contents

A portion of the transaction consideration we received from the divestiture of our Junos Pulse product portfolio is in the form of a non-contingent seller promissory note and we may not receive the amount owed to us (including accrued interest), including in the time frame contemplated, by the buyer under the note.

In the fourth quarter of fiscal 2014, we completed the sale of our Junos Pulse product portfolio to an affiliate of Siris Capital, a private equity firm, for total consideration of \$230.7 million, of which \$125.0 million was in the form of an 18-month non-contingent interest-bearing promissory note issued to the Company. On October 2, 2015, we and the issuer of the promissory note agreed to modify the original terms of the note to extend the maturity date from April 1, 2016 to December 31, 2018. On May 1, 2017, we received a principal payment in the amount of \$75.0 million and outstanding interest on the note and we and the issuer agreed to further amend the terms of the note with respect to the remaining approximately \$58.0 million to, among other things, extend the maturity date from December 31, 2018 to September 30, 2022, provide that interest due can be paid in kind by increasing the outstanding principal amount of the note and subordinate the note to other debt issued by senior lenders. Since a portion of the transaction consideration is in the form of a non-contingent seller promissory note and the note is subordinated to debt issued by senior lenders, there is the risk that we may not receive the amount owed to us (including accrued interest), including in the time frame contemplated, under the note. In the event that the promissory note is not repaid on the terms we contemplate, any collection or restructuring efforts we undertake may be costly and require significant time and attention from our management and there is no guarantee that we will be able to recover the amounts owed to us in full.

Our failure to pay quarterly dividends to our stockholders or the failure to meet our commitments to return capital to our stockholders could have a material adverse effect on our stock price.

Our ability to pay quarterly dividends or achieve our intended capital return policy will be subject to, among other things, our financial position and results of operations, available cash and cash flow, capital and debt service requirements, use of cash for acquisitions and other factors. Any failure to pay or increase future dividends as announced, or a reduction or discontinuation of quarterly dividends could have a material adverse effect on our stock price.

We announced that, beginning in 2017, we intend to target a capital return policy, inclusive of share repurchases and dividends, of approximately 50% of annual free cash flow. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. In January 2018, we announced that our Board of Directors approved a new \$2.0 billion buyback authorization, which replaced our prior authorization. In February 2018, as a part of our new buyback authorization, we entered into a \$750.0 million accelerated share repurchase program, which was completed in the third quarter of 2018, and our Board of Directors declared an increase to our quarterly cash dividend to \$0.18 per share, which reflects an increase of 80% compared to previous quarterly dividends. Any failure to meet our commitments to return capital to our stockholders could have a material adverse effect on our stock price.

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

At September 30, 2018, we had \$2,501.7 million in cash and cash equivalents and \$1,146.3 million in short-and long-term investments. We have invested these amounts primarily in asset-backed securities, certificates of deposit, commercial paper, corporate debt securities, foreign government debt securities, money market funds, mutual funds, time deposits, U.S. government agency securities, and U.S. government securities. We also have \$88.6 million in other long-term assets for our investments in privately-held companies. Certain of our investments are subject to general credit, liquidity, market, sovereign debt, and interest rate risks. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. These market risks associated with our investment portfolio may



have a material adverse effect on our liquidity, financial condition, and results of operations.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or if the Court of Chancery does not have jurisdiction, the U.S. District Court for the District of Delaware) is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of our current or former directors, officers, or other employees to us or to our stockholders; (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation, or our bylaws; (iv) any action or proceeding asserting a claim as to which Delaware General Corporation Law confers jurisdiction on the Court of Chancery or (v) any action asserting a claim governed by the internal affairs doctrine. The exclusive forum provisions

Table of Contents

in our bylaws may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our current or former directors, officers, or other employees, which may discourage such lawsuits against us and our current or former directors, officers, and other employees. Alternatively, if a court were to find the exclusive forum provisions contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on our business.

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. In addition, our insurance coverage may not be adequate to compensate us for all losses or failures that may occur. Losses not covered by insurance could be substantial and unpredictable and could adversely affect our financial condition and results of operations.

Our stock price may be volatile.

Historically, our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results and the published expectations of analysts and as a result of announcements by our competitors and us. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, security of our products, or significant transactions can cause changes in our stock price. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in particular and that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our current or potential competitors, may materially adversely affect the market price of our common stock in the future.

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

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides stock repurchase activity during the three months ended September 30, 2018 (in millions, except per share amounts):

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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or
--------	--	--	---	---

Edgar Filing: JUNIPER NETWORKS INC - Form 10-Q

			Programs <sup>(1)</sup>	Programs <sup>(1)</sup>
July 1 - July 31, 2018	6.0	\$ 25.62	6.0	\$ 1,250.0
August 1 - August 31, 2018	—	\$ —	—	\$ 1,250.0
September 1 - September 30, 2018	—	\$ —	—	\$ 1,250.0
Total	6.0	\$ —	6.0	

---

Shares were repurchased under our Board approved 2018 Stock Repurchase Program, which authorized us to purchase an aggregate of up to \$2.0 billion of our common stock. Future share repurchases will be subject to a <sup>(1)</sup> 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, including Rule 10b-18 promulgated under the Exchange Act. This program may be discontinued at any time.

Table of Contents

Item 5. Other Information

On November 5, 2018,

Juniper Networks, Inc. (the “Company”) and Terrance F. Spidell, Vice President, Corporate Controller and Chief Accounting Officer of the Company, agreed to amend (the “Amendment”) the original Letter Agreement, dated May 24, 2018 (the “Original Letter”) to revise Mr. Spidell’s resignation date. Under the terms of the Amendment, Mr. Spidell’s full-time employment with Juniper will end on the business day immediately following the date that Juniper’s Annual Report on Form 10-K for the fiscal year 2018 is filed with the U.S. Securities and Exchange Commission (such date, the “Resignation Date”).

All other terms in connection with his future transition set forth in the Original Letter remain in effect as described in the Form 8-K filed on May 29, 2018.

The description of the Amendment is qualified in its entirety by reference to the text of the Amendment, which is attached as Exhibit 10.3, and is incorporated herein by reference.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description of Document
10.1	<u>Letter Agreement, dated June 19, 2018, between Juniper Networks, Inc. and Pierre-Paul Allard*++</u>
10.2	<u>Form of Indemnification Agreement entered into by the Registrant with each of its directors, officers and certain employees, approved for use on August 9, 2018 (which is incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on August 10, 2018)++</u>
10.3	<u>Amendment to Letter Agreement, dated November 5, 2018, between Juniper Networks, Inc. and Terrance F. Spidell*++</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934*</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350**</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350**</u>
101	The following materials from Juniper Network Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) 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.

\*\*Furnished herewith.

++Indicates management contract or compensatory plan, contract or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Juniper Networks, Inc.

November 7, 2018

By: /s/ Kenneth B. Miller

Kenneth B. Miller

Executive Vice President, Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

November 7, 2018

By: /s/ Terrance F. Spidell

Terrance F. Spidell

Vice President, Corporate Controller and Chief Accounting Officer

(Duly Authorized Officer and Principal Accounting Officer)