JUNIPER NETWORKS INC
Form 10-Q
November 05, 2010

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

(Mark One)

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

**For the quarterly period ended September 30, 2010**

**OR**

o **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** | **77-0422528** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(IRS Employer Identification No.)* |
| **1194 North Mathilda Avenue Sunnyvale, California 94089** | **(408) 745-2000** |
| *(Address of principal executive offices, including zip code)* | (*Registrant s telephone number, including area code)* |

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

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

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

| Large Accelerated Filer þ | Accelerated Filer o | Non-Accelerated Filer o<br>(Do not check if a smaller reporting company) | Smaller Reporting Company o |
|---|---|---|---|

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

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

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## PART I FINANCIAL INFORMATION

### Item 1. *Financial Statements*

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

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

Net income per share attributable to Juniper Networks common stockholders:

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,460,914 | $ 1,604,723 |
| Short-term investments | 638,523 | 570,522 |
| Accounts receivable, net of allowances | 473,953 | 458,652 |
| Deferred tax assets, net | 181,955 | 196,318 |
| Prepaid expenses and other current assets | 111,466 | 48,744 |
| Total current assets | 2,866,811 | 2,878,959 |
| Property and equipment, net | 484,802 | 455,651 |
| Long-term investments | 599,036 | 483,505 |
| Restricted cash | 79,080 | 53,732 |
| Purchased intangible assets, net | 47,629 | 13,834 |
| Goodwill | 3,759,631 | 3,658,602 |
| Long-term deferred tax assets, net | | 10,555 |
| Other long-term assets | 53,908 | 35,425 |
| Total assets | $ 7,890,897 | $ 7,590,263 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 251,431 | $ 242,591 |
| Accrued compensation | 184,941 | 176,551 |
| Accrued warranty | 36,360 | 38,199 |
| Deferred revenue | 594,437 | 571,652 |
| Income taxes payable | 29,762 | 34,936 |
| Accrued litigation settlements | | 169,330 |
| Other accrued liabilities | 143,836 | 142,526 |
| Total current liabilities | 1,240,767 | 1,375,785 |
| Long-term deferred revenue | 190,701 | 181,937 |
| Long-term income tax payable | 98,198 | 170,245 |
| Other long-term liabilities | 44,332 | 37,531 |
| Commitments and Contingencies See Note 15 | | |
| Juniper Networks stockholders equity: | | |
| Convertible preferred stock, $0.00001 par value; 10,000 shares authorized; none issued and outstanding | | |
| Common stock, $0.00001 par value; 1,000,000 shares authorized; 521,141 shares and 519,341 shares issued and outstanding at September 30, 2010, and December 31, 2009, respectively | 5 | 5 |

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

## Note 1. Basis of Presentation

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

As of September 30, 2010, the Company owned a 60 percent interest in a joint venture with Nokia Siemens Networks B.V. ( NSN ). Given the Company s majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the noncontrolling investor s interests in the net assets and operations of the joint venture.

***Reclassifications***

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

## Note 2. Summary of Significant Accounting Policies

***Recent Accounting Policy Changes***

*Revenue Recognition*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Service revenues include revenue from maintenance, training, and professional services. Maintenance is offered under renewable contracts. Revenue from maintenance service contracts is deferred and recognized ratably over the contractual support period, which is generally one to three years. Revenue from training and professional services is recognized as services are completed or ratably over the contractual period, which is generally one year or less.

The Company sells certain interests in accounts receivable on a non-recourse basis as part of customer financing arrangements primarily with one major financing company. Cash received under this arrangement in advance of revenue recognition is recorded as short-term debt.

***Recent Accounting Pronouncements***

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

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

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

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

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

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

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

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

**Note 3. Business Combination**

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

***Ankeena Acquisition***

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

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

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

***SMobile Acquisition***

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

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

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

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

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

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

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

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

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

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

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

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

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

**Note 4. Net Income per Share**

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

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

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

**Three Months Ended**