JUNIPER NETWORKS INC
Form 10-Q
August 08, 2018

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

(Mark One)

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

For the quarterly period ended June 30, 2018

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)	(I.R.S. Employer Identification No.)

1133 Innovation Way Sunnyvale, California	94089
(Address of principal executive offices)	(Zip code)

(408) 745-2000
(Registrant's telephone number, including area code)

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

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 x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. 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 x

There were 344,795,010 shares of the Company's Common Stock, par value $0.00001, outstanding as of August 3, 2018.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues:				
Product	$824.9	$917.2	$1,535.7	$1,746.1
Service	379.2	391.7	751.0	783.8
Total net revenues	1,204.1	1,308.9	2,286.7	2,529.9
Cost of revenues:				
Product	336.6	360.2	643.0	690.4
Service	166.6	146.8	324.4	291.0
Total cost of revenues	503.2	507.0	967.4	981.4
Gross margin	700.9	801.9	1,319.3	1,548.5
Operating expenses:				
Research and development	248.8	240.2	518.2	516.4
Sales and marketing	238.3	239.9	477.7	484.1
General and administrative	54.2	55.6	110.2	106.1
Restructuring (benefits) charges	(0.2)	8.0	(2.1)	27.4
Total operating expenses	541.1	543.7	1,104.0	1,134.0
Operating income	159.8	258.2	215.3	414.5
Other expense, net	(8.9)	(13.0)	(23.0)	(28.7)
Income before income taxes	150.9	245.2	192.3	385.8
Income tax provision	34.4	65.4	41.4	97.2
Net income	$116.5	$179.8	$150.9	$288.6
Net income per share:				
Basic	$0.33	$0.47	$0.43	$0.76
Diluted	$0.33	$0.47	$0.42	$0.74
Shares used in computing net income per share:				
Basic	349.0	380.4	352.2	380.6
Diluted	351.3	385.6	356.8	387.6
Cash dividends declared per common stock	$0.18	$0.10	$0.36	$0.20

See accompanying Notes to Condensed Consolidated Financial Statements

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Juniper Networks, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$116.5	$179.8	$150.9	$288.6
Other comprehensive (loss) income, net of tax:				
Available-for-sale debt securities:				
Unrealized gain (loss) net of tax provision of $0.2 and benefit of $1.2 during the three and six months ended June 30, 2018, respectively, and tax benefit of $0.4 and provision of $0.3 for the corresponding periods of the fiscal year ended December 31, 2017 ("fiscal 2017"), respectively	0.5	0.1	(1.5)	1.6
Reclassification adjustment for realized net loss (gain) included in net income, net of tax provisions of zero for each period	—	—	0.9	(0.1)
Net change on available-for-sale debt securities, net of tax	0.5	0.1	(0.6)	1.5
Cash flow hedges:				
Unrealized (loss) gain net of tax benefits of $1.5 and $1.2 during the three and six months ended June 30, 2018, respectively, and tax provisions of $0.8 and $2.5 for the corresponding periods of fiscal 2017, respectively	(14.4)	3.0	(1.3)	8.3
Reclassification adjustment for realized net (gain) loss included in net income, net of tax provisions of $0.2 and $0.8 during the three and six months ended June 30, 2018, respectively, and net of tax provisions of $0.6 and $0.9 for the corresponding periods of fiscal 2017, respectively	(3.0)	(1.0)	(8.1)	0.1
Net change on cash flow hedges, net of tax	(17.4)	2.0	(9.4)	8.4
Change in foreign currency translation adjustments	(12.0)	3.0	(6.7)	10.9
Other comprehensive (loss) income, net of tax	(28.9)	5.1	(16.7)	20.8
Comprehensive income	$87.6	$184.9	$134.2	$309.4

See accompanying Notes to Condensed Consolidated Financial Statements

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

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,690.4	$ 2,006.5
Short-term investments	432.3	1,026.1
Accounts receivable, net of allowances	702.2	852.0
Prepaid expenses and other current assets	279.7	299.9
Total current assets	4,104.6	4,184.5
Property and equipment, net	987.1	1,021.1
Long-term investments	407.8	988.4
Purchased intangible assets, net	119.4	128.1
Goodwill	3,096.1	3,096.2
Other long-term assets	406.0	415.5
Total assets	$ 9,121.0	$ 9,833.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 183.2	$ 217.6
Accrued compensation	199.6	186.0
Deferred revenue	872.1	1,030.3
Short-term debt	349.5	—
Other accrued liabilities	204.1	304.3
Total current liabilities	1,808.5	1,738.2
Long-term debt	1,788.2	2,136.3
Long-term deferred revenue	365.1	509.0
Long-term income taxes payable	615.6	650.6
Other long-term liabilities	125.9	118.8
Total liabilities	4,703.3	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; 349.4 shares and 365.5 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	7,609.8	8,042.1
Accumulated other comprehensive loss	(16.4)	(5.4)
Accumulated deficit	(3,175.7)	(3,355.8)
Total stockholders' equity	4,417.7	4,680.9
Total liabilities and stockholders' equity	$ 9,121.0	$ 9,833.8

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$150.9	$288.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	127.0	106.1
Depreciation, amortization, and accretion	110.9	112.1
Other	1.5	(1.8)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	147.5	304.8
Prepaid expenses and other assets	(26.5)	46.4
Accounts payable	(28.8)	(5.1)
Accrued compensation	15.8	(20.6)
Income taxes payable	(77.7)	27.9
Other accrued liabilities	(27.5)	(32.4)
Deferred revenue	48.3	19.3
Net cash provided by operating activities	441.4	845.3
Cash flows from investing activities:		
Purchases of property and equipment	(79.3)	(64.3)
Purchases of available-for-sale debt investments	(114.4)	(776.4)
Proceeds from sales of available-for-sale debt investments	995.4	429.1
Proceeds from maturities and redemptions of available-for-sale debt investments	289.9	350.4
Purchases of equity investments	(6.3)	(12.3)
Proceeds from sales of equity investments	29.5	—
Proceeds from Pulse note receivable	—	75.0
Payment of escrow balance related to prior year acquisitions	(31.5)	—
Net cash provided by investing activities	1,083.3	1.5
Cash flows from financing activities:		
Repurchase and retirement of common stock, including prepayment under an accelerated share repurchase program	(754.2)	(255.3)
Proceeds from issuance of common stock	29.5	35.5
Payment of dividends	(124.9)	(75.8)
Change in customer financing arrangement	(16.3)	—
Other	(0.5)	—
Net cash used in financing activities	(866.4)	(295.6)
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	(5.4)	9.4
Net increase in cash, cash equivalents and restricted cash	652.9	560.6
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	$2,712.0	$2,441.2

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1. Basis of Presentation

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 six months ended June 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 $48.7 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 six months ended June 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 six months ended June 30, 2017. See Note 3, Cash Equivalents and Investments for a reconciliation of the cash balances within our 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.

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 Standard

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 income (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.

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

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.
The cumulative effect of the changes made to our 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 As reported	Adjustments	January 1, 2018 As adjusted
Assets:			
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
Liabilities:			
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
Equity:			
Accumulated deficit *	$(3,355.8)	$ 324.7	$(3,031.1)

* Includes additional adjustments identified subsequent to the filing of the Form 10-Q for the three months ended March 31, 2018, which were not material to such previously issued financial statements.

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.

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

- Software Revenue: Under Topic 605, the Company deferred revenue for software licenses where vendor-specific objective evidence ("VSOE") 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.

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 June 30, 2018*			Six Months Ended June 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	$824.9	$795.7	$29.2	$1,535.7	$1,477.8	$57.9
Service	379.2	425.2	(46.0)	751.0	823.8	(72.8)
Total net revenues	$1,204.1	$1,220.9	$(16.8)	$2,286.7	$2,301.6	$(14.9)
Operating expenses:						
Sales and marketing	$238.3	$233.7	$4.6	$477.7	$472.2	$5.5

* Except as disclosed, the adoption of Topic 606 did not have a significant impact on the Company’s Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018.

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

	As of June 30, 2018		
	As reported	Without Adoption of Topic 606	Topic 606 Impact
Assets:			
Accounts receivable, net of allowances	$702.2	$693.8	$8.4
Prepaid expenses and other current assets	279.7	256.2	23.5
Other long-term assets	406.0	406.7	(0.7)
Total assets	$9,121.0	$9,089.8	$31.2
Liabilities:			
Deferred revenue	$872.1	$1,091.5	$(219.4)
Other accrued liabilities	204.1	150.9	53.2
Long-term deferred revenue	365.1	475.3	(110.2)
Total liabilities	$4,703.3	$4,979.7	$(276.4)
Equity:			
Accumulated deficit	$(3,175.7)	$(3,483.3)	$307.6

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.

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

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.

Recent Accounting Standards Not Yet Effective

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 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 Company is currently evaluating the impact of adoption 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 that this standard will have on its Consolidated Financial Statements and disclosures.

Leases: In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), Leases, 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, and is currently on schedule to complete its evaluation of the impact to its financial statements, disclosures, processes, systems and controls. We currently anticipate a material impact related to the recognition of lease assets and lease liabilities for previously unrecognized leases on our Consolidated Balance Sheets, and we are continuing to evaluate the impact this standard will have on the Consolidated Statements of Operations.

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 June 30, 2018 and December 31, 2017 (in millions):

	As of June 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	$96.3	$ —	$ (0.6)	$95.7	$287.1	$ —	$ (0.6)	$286.5
Certificates of deposit	16.7	—	—	16.7	83.8	—	—	83.8
Commercial paper	61.3	—	—	61.3	217.1	—	—	217.1
Corporate debt securities	450.3	—	(4.6)	445.7	929.6	0.4	(3.0)	927.0
Foreign government debt securities	38.2	—	(0.2)	38.0	62.9	—	(0.2)	62.7
Time deposits	219.2	—	—	219.2	239.2	—	—	239.2
U.S. government agency securities	62.3	—	(0.4)	61.9	143.9	—	(0.7)	143.2
U.S. government securities	213.7	—	(0.8)	212.9	406.8	0.1	(0.9)	406.0
Total fixed income securities	1,158.0	—	(6.6)	1,151.4	2,370.4	0.5	(5.4)	2,365.5
Privately-held debt and redeemable preferred stock securities	17.1	37.4	—	54.5	15.9	37.4	—	53.3
Total available-for-sale debt securities	$1,175.1	$ 37.4	$ (6.6)	$1,205.9	$2,386.3	$ 37.9	$ (5.4)	$2,418.8
Reported as:								
Cash equivalents	$311.4	$ —	$ (0.1)	$311.3	$351.0	$ —	$ —	$351.0
Short-term investments	433.8	—	(1.5)	432.3	1,027.2	0.1	(1.2)	1,026.1
Long-term investments	412.8	—	(5.0)	407.8	992.2	0.4	(4.2)	988.4
Other long-term assets	17.1	37.4	—	54.5	15.9	37.4	—	53.3
Total	$1,175.1	$ 37.4	$ (6.6)	$1,205.9	$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 June 30, 2018 (in millions):

	Amortized Cost	Estimated Fair Value
Due in less than one year	$ 745.2	$743.6
Due between one and five years	412.8	407.8
Total	$ 1,158.0	$1,151.4

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

	As of June 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	$65.8	$ (0.4)	$25.3	$ (0.2)	$91.1	$ (0.6)
Corporate debt securities	341.4	(3.7)	83.9	(0.9)	425.3	(4.6)
Foreign government debt securities	34.5	(0.2)	2.0	—	36.5	(0.2)
U.S. government agency securities	30.4	(0.1)	31.6	(0.3)	62.0	(0.4)
U.S. government securities	87.5	(0.5)	43.5	(0.3)	131.0	(0.8)
Total fixed income securities	$559.6	$ (4.9)	$186.3	$ (1.7)	$745.9	$ (6.6)

	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 June 30, 2018, the Company had 545 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 six months ended June 30, 2018 and June 30, 2017.

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

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Investments in Equity Securities

The following table presents the Company's investments in equity securities as of June 30, 2018. Balances as of December 31, 2017 were included for comparative purpose and continue to be reported under the accounting standard in effect before adoption of ASU 2016-01 (in millions):

	As of	
	June 30, 2018	December 31, 2017
Equity investments with readily determinable fair value		
Money market funds [(1)]	$1,997.8	$ 969.8
Mutual funds [(2)]	26.1	27.6
Equity investments without readily determinable fair value [(3)]	34.1	29.7
Total equity securities	$2,058.0	$ 1,027.1
Reported as:		
Cash equivalents	$1,986.2	$ 928.0
Prepaid expenses and other current assets	10.5	36.3
Other long-term assets	61.3	62.8
Total	$2,058.0	$ 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 six months ended June 30, 2018 and June 30, 2017, there were no material unrealized gains or losses recognized for equity investments.

Restricted Cash and Investments

As of June 30, 2018, the carrying value of restricted cash and investments was $59.3 million, of which $29.0 million was included in prepaid expenses and other current assets and $30.3 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 June 30, 2018 and December 31, 2017 (in millions):

	As of	
	June 30, 2018	December 31, 2017
Cash and cash equivalents	$2,690.4	$ 2,006.5

Restricted cash included in Prepaid expenses and other current assets	18.6	49.6
Restricted cash included in Other long-term assets	3.0	3.0
Total cash, cash equivalents and restricted cash	$2,712.0	$ 2,059.1

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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 June 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	$—	$95.7	$ —	$95.7	$—	$286.5	$ —	$286.5
Certificates of deposit	—	16.7	—	16.7	—	83.8	—	83.8
Commercial paper	—	61.3	—	61.3	—	217.1	—	217.1
Corporate debt securities	—	445.7	—	445.7	—	927.0	—	927.0
Foreign government debt securities	—	38.0	—	38.0	—	62.7	—	62.7
Time deposits	—	219.2	—	219.2	—	239.2	—	239.2
U.S. government agency securities	—	61.9	—	61.9	—	143.2	—	143.2
U.S. government securities	125.5	87.4	—	212.9	322.4	83.6	—	406.0
Privately-held debt and redeemable preferred stock securities	—	—	54.5	54.5	—	—	53.3	53.3
Total available-for-sale debt securities	125.5	1,025.9	54.5	1,205.9	322.4	2,043.1	53.3	2,418.8
Equity securities:								
Mutual funds[(1)]	26.1	—	—	26.1	27.6	—	—	27.6
Money market funds[(2)]	1,997.8	—	—	1,997.8	969.8	—	—	969.8
Total equity securities	2,023.9	—	—	2,023.9	997.4	—	—	997.4
Derivative assets:								
Foreign exchange contracts	—	1.3	—	1.3	—	9.2	—	9.2
Total assets measured at fair value	$2,149.4	$1,027.2	$ 54.5	$3,231.1	$1,319.8	$2,052.3	$ 53.3	$3,425.4
Liabilities:								
Derivative liabilities:								
Foreign exchange contracts	$—	$(5.1)	$ —	$(5.1)	$—	$(1.8)	$ —	$(1.8)
Total liabilities measured at fair value	$—	$(5.1)	$ —	$(5.1)	$—	$(1.8)	$ —	$(1.8)

Total assets, reported as:								
Cash equivalents	$1,986.2	$311.3	$ —	$2,297.5	$928.1	$350.9	$ —	$1,279.0
Short-term investments	84.2	348.1	—	432.3	247.5	778.6	—	1,026.1
Long-term investments	41.3	366.5	—	407.8	74.8	913.6	—	988.4
Prepaid expenses and other current assets	10.4	1.3	—	11.7	36.3	9.2	—	45.5
Other long-term assets	27.3	—	54.5	81.8	33.1	—	53.3	86.4
Total assets measured at fair value	$2,149.4	$1,027.2	$ 54.5	$3,231.1	$1,319.8	$2,052.3	$ 53.3	$3,425.4
Total liabilities, reported as:								
Other accrued liabilities	$—	$(5.1)	$ —	$(5.1)	$—	$(1.8)	$ —	$(1.8)
Total liabilities measured at fair value	$—	$(5.1)	$ —	$(5.1)	$—	$(1.8)	$ —	$(1.8)

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

(2) Balance includes $11.6 million and $16.8 million in restricted investments measured at fair value, related to the Company's acquisition-related escrows as of June 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 ("D&O") Trust.

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 six months ended June 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 six months ended June 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 six months ended June 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 six months ended June 30, 2018, there were no impairment charges or adjustments resulting from observable price changes for equity investments without readily determinable fair value.

As of June 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 June 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 $2,178.8 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”) of $64.6 million and $61.2 million approximates its fair value as of June 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.

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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	
	June 30, 2018	December 31, 2017
Cash flow hedges	$235.0	$ 521.1
Non-designated derivatives	149.0	108.3
Total	$384.0	$ 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 June 30, 2018, an estimated $3.2 million of existing 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 $15.9 million and $2.5 million in accumulated other comprehensive loss for the effective portion of its derivative instruments for the three and six months ended June 30, 2018, respectively; and an unrealized gain of $3.8 million and $10.8 million for the comparable periods in fiscal 2017, respectively. The Company reclassified a gain of $3.3 million and $8.9 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 six months ended June 30, 2018, respectively. The amount reclassified out of accumulated other comprehensive loss to cost of revenues and operating expenses in the Condensed Consolidated Statements of Operations was not material during the three and six months ended June 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 six months ended June 30, 2018 and June 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 six months ended June 30, 2018 and June 30, 2017.

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Note 6. Other Financial Information

Inventory

Total inventory consisted of the following (in millions):

	As of	
	June 30, 2018	December 31, 2017
Production and service materials	$64.4	$ 71.2
Finished goods	16.9	26.6
Inventory	$81.3	$ 97.8
Reported as:		
Prepaid expenses and other current assets	$79.5	$ 93.8
Other long-term assets	1.8	4.0
Total	$81.3	$ 97.8

Warranties

Changes during the six months ended June 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	13.6
Actual costs incurred during the period	(15.1)
Balance as of June 30, 2018	$25.9

Deferred Revenue

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

	As of	
	June 30, 2018	December 31, 2017
Deferred product revenue:		
Undelivered product commitments and other product deferrals	$152.2	$ 312.6
Distributor inventory and other sell-through items	—	68.1
Deferred gross product revenue	152.2	380.7
Deferred cost of product revenue	(10.2)	(46.5)
Deferred product revenue, net	142.0	334.2
Deferred service revenue	1,095.2	1,205.1
Total	$1,237.2	$ 1,539.3
Reported as:		
Current	$872.1	$ 1,030.3
Long-term	365.1	509.0
Total	$1,237.2	$ 1,539.3

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Revenue

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

Product revenue of $17.0 million and $56.5 million included in deferred revenue at January 1, 2018 was recognized during the three and six months ended June 30, 2018, respectively. Service revenue of $166.3 million and $431.3 million included in deferred revenue at January 1, 2018 was recognized during the three and six months ended June 30, 2018, respectively.

The following table summarizes the transaction price for contracts that have not yet been recognized as revenue as of June 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	$152.2	$126.4	$22.8	$3.0
Service	1,095.2	755.9	303.2	36.1
Total	$1,247.4	$882.3	$326.0	$39.1

Deferred Commissions

Deferred commissions were $26.3 million as of June 30, 2018. For the three and six months ended June 30, 2018, amortization expense for the deferred commissions was $37.7 million and $78.2 million, respectively. There were no impairment charges recognized during the three and six months ended June 30, 2018.

Other Expense, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income	$16.0	$12.0	$30.9	$22.4
Interest expense	(25.9)	(25.0)	(51.9)	(50.3)
Gain on investments, net	0.6	0.8	0.1	2.0
Other	0.4	(0.8)	(2.1)	(2.8)
Other expense, net	$(8.9)	$(13.0)	$(23.0)	$(28.7)

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Note 7. Restructuring (Benefits) Charges

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 (benefits) charges in the Condensed Consolidated Statements of Operations.

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 (in millions):

	December 31, 2017	Benefits	Cash Payments	Other	June 30, 2018
Severance	$ 17.7	$ (1.1)	$ (15.6)	$ 0.1	$ 1.1
Contract terminations and other	2.3	(1.0)	(1.3)	—	—
Total	$ 20.0	$ (2.1)	$ (16.9)	$ 0.1	$ 1.1

The Company does not anticipate future charges under the 2017 Restructuring Plan and expects to pay the remaining restructuring liabilities by the end of 2018, at which time the Company would consider the 2017 Restructuring Plan to be substantially completed.

Note 8. Equity

Cash Dividends on Shares of Common Stock

During the six months ended June 30, 2018, the Company declared a quarterly cash dividend of $0.18 per share of common stock on January 30, 2018 and May 2, 2018, which was paid on March 22, 2018 and June 22, 2018, respectively, to stockholders of record on March 1, 2018 and June 1, 2018, respectively, in the aggregate amount of $124.9 million. 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 Events, for discussion of the Company's dividend declaration subsequent to June 30, 2018.

Stock Repurchase Activities

In January 2018, the Board approved a $2.0 billion share repurchase program, including $750.0 million to be used pursuant to an accelerated share repurchase program ("2018 Stock 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 for an aggregate price of $600.0 million, based on the market value of the Company's common stock on the date of the transaction. The initial shares received by the Company were retired, accounted for as a reduction to stockholders' equity in the Condensed Consolidated Balance Sheets, and treated as a repurchase of common stock for purposes of calculating earnings per share. The forward contract for the remaining $150.0 million is considered indexed to the Company's common stock and meets all of the applicable criteria for equity classification.

During the six months ended June 30, 2018, the only repurchases under 2018 Stock Repurchase Program were in connection with the ASR. There were no repurchases during the three months ended June 30, 2018. The following table summarizes the Company's stock repurchases and retirements, including prepayment pursuant to the ASR, under its stock repurchase programs (in millions, except per share amounts):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2018 [1]	2017 [2]	2018 [1]	2017 [2]
Repurchases Under Stock Repurchase Program				
Shares repurchased	—	4.0	23.3	8.5
Average price per share	$—	$30.59	$25.80	$29.25
Amount repurchased	$—	$125.0	$750.0	$250.0

[1] Shares repurchased under the 2018 Stock Repurchase Program.
[2] Shares repurchased under the 2014 Stock Repurchase Program.

As of June 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.

Accumulated Other Comprehensive Loss, Net of Tax

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

	Unrealized Gains/Losses on Available-for-Sale Debt Securities[1]	Unrealized Gains/Losses on Cash Flow Hedges[2]	Foreign Currency Translation Adjustments	Total
Balance as of December 31, 2017	$ 19.0	$ 6.0	$ (30.4)	$ (5.4)
Other comprehensive loss before reclassifications	(1.5)	(1.3)	(6.7)	(9.5)
Amount reclassified from accumulated other comprehensive income (loss)	0.9	(8.1)	—	(7.2)
Other comprehensive loss, net	(0.6)	(9.4)	(6.7)	(16.7)
Reclassification of tax effects upon adoption of ASU 2018-02	5.0	0.7	—	5.7
Balance as of June 30, 2018	$ 23.4	$ (2.7)	$ (37.1)	$ (16.4)

[1] The reclassifications out of accumulated other comprehensive loss during the six months ended June 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.
[2] The reclassifications out of accumulated other comprehensive loss during the six months ended June 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.

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 June 30, 2018, 24.2 million and 9.9 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 six months ended June 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		
Expired/Canceled	(0.7)	40.34		
Balance as of June 30, 2018	0.2	$ 15.13	2.1	$ 2.0
As of June 30, 2018:				
Vested and expected-to-vest options	0.2	$ 15.13	2.1	$ 2.0
Exercisable options	0.1	$ 16.64	1.3	$ 1.5

Restricted Stock Unit, Restricted Stock Award, and Performance Share Award Activities

The Company’s RSU, restricted stock award ("RSA"), and PSA activity and related information as of and for the six months ended June 30, 2018 were as follows (in millions, except per share amounts and years):

	Outstanding RSUs, RSAs, and PSAs(4)			
	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 (1)(3)	5.5	25.03		
PSAs granted (2)(3)	0.7	24.43		
RSUs vested	(4.9)	25.43		
PSAs vested	(1.1)	24.13		

RSUs canceled	(1.0)	25.65		
PSAs canceled	(0.6)	24.32		
Balance as of June 30, 2018	18.1	$ 25.33	1.2	$ 496.3

(1) 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. 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 0 to 0.3 million shares.

(2) 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 0 to 0.7 million shares.

(3) 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 six months ended June 30, 2018, the Company declared a quarterly cash dividend of $0.18 per share of common stock on January 30, 2018 and May 2, 2018.

(4) Excludes 1.9 million shares of PSAs that were modified during the six months ended June 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. The total incremental compensation cost resulting from the modifications totaled $5.7 million to be recognized over the remaining terms of the modified awards.

Employee Stock Purchase Plan

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.

For the six months ended June 30, 2018 and June 30, 2017, employees purchased approximately 1.3 million and 1.5 million shares of common stock through the ESPP at an average exercise price of $22.23 and $19.21 per share, respectively. There were no stock purchases under the ESPP during the three months ended June 30, 2018 and June 30, 2017.

Share-Based Compensation Expense

Share-based compensation expense associated with stock options, RSUs, 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenues - Product	$1.7	$1.4	$3.6	$2.3
Cost of revenues - Service	4.9	5.3	9.7	9.6
Research and development	29.6	14.1	73.7	48.9
Sales and marketing	14.0	16.3	27.5	31.6
General and administrative	6.4	7.0	12.5	13.7
Total	$56.6	$44.1	$127.0	$106.1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	$0.1	$0.2	$0.2	$0.3
RSUs, RSAs, and PSAs	52.0	40.1	117.6	97.9
ESPP	4.5	3.8	9.2	7.9
Total	$56.6	$44.1	$127.0	$106.1

As of June 30, 2018, the total unrecognized compensation cost related to unvested share-based awards was $356.5 million to be recognized over a weighted-average period of 1.7 years.

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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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Routing	$490.6	$572.5	$898.7	$1,094.1
Switching	254.8	276.0	484.8	517.6
Security	79.5	68.7	152.2	134.4
Total product	824.9	917.2	1,535.7	1,746.1
Total service	379.2	391.7	751.0	783.8
Total	$1,204.1	$1,308.9	$2,286.7	$2,529.9

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cloud	$279.8	$379.6	$548.1	$711.2
Service Provider	523.3	562.4	1,003.2	1,130.9
Enterprise	401.0	366.9	735.4	687.8
Total	$1,204.1	$1,308.9	$2,286.7	$2,529.9

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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Americas:				
United States	$624.8	$749.1	$1,157.1	$1,407.2
Other	50.9	51.7	106.2	105.2
Total Americas	675.7	800.8	1,263.3	1,512.4
Europe, Middle East, and Africa	308.9	288.2	616.9	572.7
Asia Pacific	219.5	219.9	406.5	444.8
Total	$1,204.1	$1,308.9	$2,286.7	$2,529.9

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income before income taxes	$150.9	$245.2	$192.3	$385.8
Income tax provision	$34.4	$65.4	$41.4	$97.2
Effective tax rate	22.8 %	26.7 %	21.5 %	25.2 %

The Tax Act enacted in 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. As the Company collects and prepares the necessary data, interprets the Tax Act and reviews any additional guidance issued by the U.S. Treasury Department, state revenue and taxation authorities and other standard-setting bodies, 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 adjustments made during the three and six months ended June 30, 2018, were not material. The accounting for the tax effects of the Tax Act will be completed later in 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. Due to the complexities of the new provisions, 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 the GILTI in its financial statements and has no 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.

The Company's effective tax rate during the three and six months ended June 30, 2018 differs from the statutory rate of 21%, primarily due to less favorable mix of foreign earnings taxed at varying rates, and state income tax, offset by the benefit of the federal research and development credit.

As of June 30, 2018, the total amount of gross unrecognized tax benefits was $261.7 million.

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 $50 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. The balance primarily relates to matters involving U.S. and non-U.S. taxation of cross-border transactions and the utilization of losses.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$116.5	$179.8	$150.9	$288.6
Denominator:				
Weighted-average shares used to compute basic net income per share	349.0	380.4	352.2	380.6
Dilutive effect of employee stock awards	2.3	5.2	4.6	7.0
Weighted-average shares used to compute diluted net income per share	351.3	385.6	356.8	387.6
Net income per share				
Basic	$0.33	$0.47	$0.43	$0.76
Diluted	$0.33	$0.47	$0.42	$0.74
Anti-dilutive shares	10.2	1.0	3.9	1.3

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 $609.4 million as of June 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 June 30, 2018, the Company had accrued $24.1 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 June 30, 2018 and December 31, 2017, the Company recorded $9.4 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.

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, but believes an adverse outcome is reasonably possible. 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. As a result, the Company believes it is reasonably possible that it could incur a loss related to the ongoing SEC investigation, but the Company is not able to estimate the outcome or develop a reasonable estimate of a possible loss or range of possible losses, if any. 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 Events

Dividend Declaration

On July 26, 2018, the Company announced that it had declared a cash dividend of $0.18 per share of common stock payable on September 25, 2018 to stockholders of record as of the close of business on September 4, 2018.

Stock Repurchase Activities

During the third quarter of 2018, the ASR was completed and the Company received an additional 6.0 million shares from the financial institutions. These 6.0 million shares will be retired in the third quarter of 2018. The completion of the ASR resulted in a total settlement 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.

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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 1, 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.

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

- Telecom/Cable will now be referred to as 'Service Provider'
- Strategic Enterprise will now be referred to as 'Enterprise'
- Cloud will remain unchanged

Types of customers included in the key verticals will remain unchanged.

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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.

In routing, 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. These architectural shifts have led to a near-term slowdown in our net revenues as in some cases there is a pause before the new architecture ramps.

In switching, we see that certain large Cloud customers who can rapidly scale based on increased demand, are in the process of adopting 100-Gigabit connections, or 100G, resulting in certain large deployment delays at our largest Cloud customers as they prepare for this adoption.

Despite these ongoing deployment delays and architectural shifts, 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.

During the second quarter of 2018, we continued to execute on our product strategy, specifically around the Cloud. We also simplified threat response for our customers with enhancements to our Unified Cybersecurity Platform that includes integrations between SRX Series Next-Generation Firewalls, the Advanced Threat Prevention (ATP) Appliance, and Juniper ATP Appliance integrations with Junos Space Security Director Policy Enforcer.

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Financial Results and Key Performance Metrics Overview

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 June 30,				Six Months Ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Net revenues	$1,204.1	$1,308.9	$(104.8)	(8)%	$2,286.7	$2,529.9	$(243.2)	(10)%
Gross margin	$700.9	$801.9						